Building
Successful
Partnerships

INDIA BUDGET 2026

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The provisions contained in the Finance Bill 2026 ("the Bill") are proposals and are likely to undergo amendments while passing through Houses of Parliament before being enacted.

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Our Budget publication for 2026 carries the theme "Building Successful Partnerships" — a quiet reflection on the power of collaboration in a world increasingly marked by division and disruption. At a time when global narratives are often shaped by conflict and competition, partnerships across nations, businesses, academic institutions, and global organizations remind us that progress is still born from cooperation, trust, and shared intent. These alliances—economic, technological, academic, and social—form the underlying foundation that supports resilience and long-term growth.

The images woven through this publication draw inspiration from strategic partnerships that have been created or renewed in recent times, echoing a simple but enduring truth: meaningful collaboration remains one of the most effective responses to uncertainty. As we engage with the Budget this year, we do so through the lens of these evolving global relationships and the possibilities they unlock for the future.

This theme also holds special significance for us, as we dedicate this publication to the beginning of our own collaboration as founding members of KSL Network—a collaboration we believe will strengthen shared capabilities and collective purpose in the years ahead.

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India EU deal

European Commission President Ursula von der Leyen, Prime Minister Narendra Modi and European Council President António Costa mark the signing of the India–EU trade deal.

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Foreword

It gives us great pleasure to present our legacy publication on Union Budget 2026, a publication that has over the years earned its place as a trusted, insightful, and eagerly awaited resource for one and all. This year's Edition holds special significance, not only for its content, but also because it is being published for the first time as a KSL Network publication, marking a new and meaningful chapter in our collective journey.

The theme of this year's publication - "Building Successful Partnerships", is both timely and deeply resonant. In an increasingly interconnected world, progress is no longer the product of isolated efforts; it is shaped by collaboration, mutual trust, and shared purpose. Whether in business, governance, or society, enduring success is being built through partnerships that transcend borders, sectors, and institutions.

KSL Network, comprising like-minded and value-driven Chartered Accountancy firms, represents precisely this ethos. While each firm brings its own legacy, strengths, and specialisations, together we stand united in our commitment to excellence, integrity, and client-centric service. The Network is not merely a formal arrangement, it is a partnership of ideas, people, and purpose. In many ways, our journey mirrors the very theme of this publication: stronger together, more impactful together, and better positioned to serve our stakeholders together.

Recent developments in international trade underscore this momentum. The progress toward an India–EU Free Trade Agreement signals India's deeper integration into global value chains, while constructive dialogues with the United States on trade and investment highlight a maturing economic partnership between two major democracies. These developments reinforce the centrality of partnerships, not just between nations, but also between governments and businesses, employers and employees, and institutions and communities.

Against this backdrop, the Union Budget 2026 assumes even greater significance. It is a roadmap for growth, resilience, and collaboration. This publication seeks to uncover the nuances, analyse its implications, and provide readers with clear, thoughtful perspectives, especially on technical interpretations around the Tax Proposals. Hon'ble Finance Minister has put forth a Sankalp that marries with our theme and, for achieving the Sankalp laid down three broad Kartavyas which focus on developing resilience against global volatility, capacity building and inclusive growth & partnerships (sabka saath, sab ka vikas).

We wish to thank our readers whose faith in this publication inspires us to raise the bar every year. We wish you all happy reading, and hope that this analysis enriches your understanding and supports our journey in building successful partnerships.

Warm regards,

K C Mehta & Co LLP
Chartered Accountants

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G20 India Presidency – Finance Track Cooperation

India's G20 presidency focusing on global financial governance and multilateral cooperation addressing macroeconomic stability, sustainable finance, digital currency frameworks, debt restructuring, climate finance, cryptocurrency regulation, and inclusive economic growth, bringing together finance ministers and central bank governors to coordinate policy responses and strengthen the international financial architecture.

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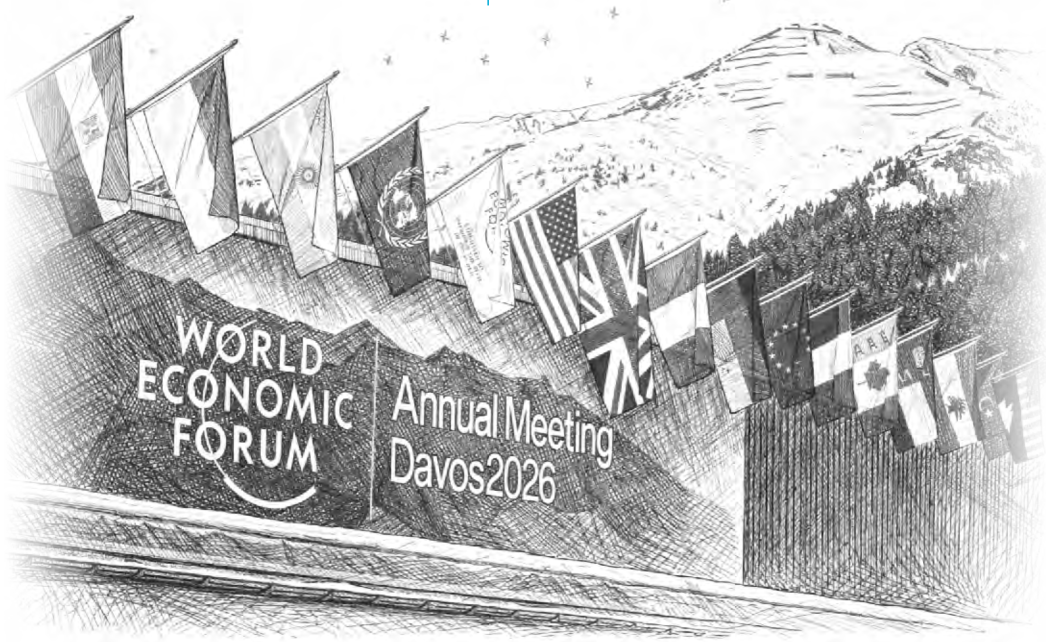


Davos

National flags line the venue at the World Economic Forum Annual Meeting 2026 in Davos, reflecting ongoing global dialogue on economic, geopolitical and technological priorities.

Economic Survey 2025-26

Background

The last Economic Survey was tabled in the backdrop of the third consecutive win by the incumbent National Democratic Alliance ('NDA') coalition government, led by Bhartiya Janta Party ('BJP'). Much water has flowed since then with a dramatic turn of events affecting global trade and political environment. Allies and pacts once seemingly permanent are dwindling, and the economic headwinds have all the developed nations scurrying for shelter. Yesterday's friends have turned foes, and nations earlier seen as a threat are now being sided along to form new pacts and alliances.

The sudden upheaval in the global environment has as much to do with political standpoint as is vying for a larger pie of precious natural resources, including rare minerals and oil which would be the drivers for growth going forward. The battle for global resources has created a faultline across nations, and the global economic and political environment is seeing changes faster than the mind can grasp. The International Monetary Fund's ('IMF') World Economic Outlook ('WEO') report of January 2026 pegs the global growth at 3.3 percent for 2026 and 3.2 percent in 2027. The growth for 2026 is in line with the growth estimated of 3.3 percent for 2025.

An interesting trend being projected in the report of IMF is that there will be a divergence between growth and inflation globally. As per the WEO report, global headline inflation is expected to decline from an estimated 4.1 percent in 2025 to 3.8 percent in 2026 and further to 3.4 percent in 2027 as against steady global growth of ~3.3 percent in 2026. Though the developed countries, including the US are estimated to grow at ~ 1.8 percent, the emerging and developing economies are anticipated to grow at ~ 4.0 percent for the next two years.

In the midst of upheaval and global geopolitical uncertainty, the Summit at Davos, Switzerland marked a turning point in how the economies will shape up in the coming years. Some of the key takeaways of the Summit are:

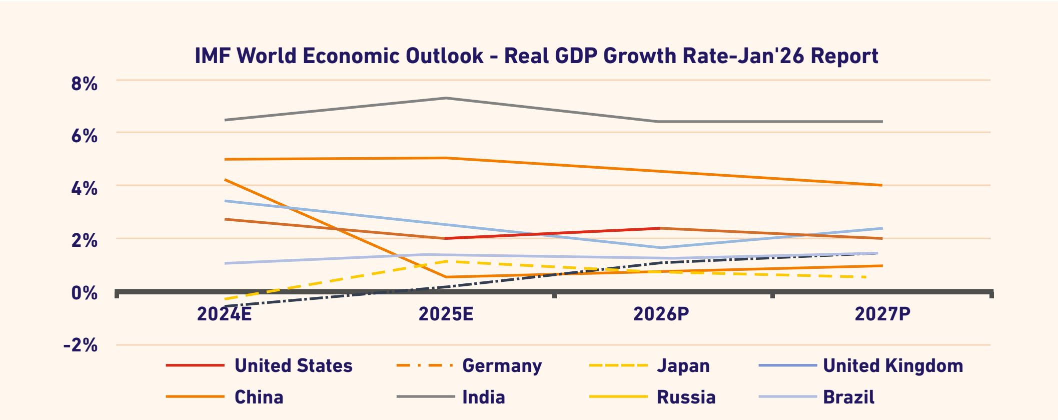
Geopolitics: Europe was rattled by the rhetoric of President Donald Trump on his claim to Greenland. In Europe, this view of the POTUS was seen as crossing all red lines on territorial sovereignty and severe resistance and displeasure from the European allies, with the possible financial fallout could be reasons for softening of stance by the US. Meanwhile peace deal between Russia and Ukraine is elusive as ever and no solution seems in sight in the near future.

Macroeconomics and Markets: US threat of imposing tariffs on European allies for opposing the US claim on Greenland inflated trade tensions and led to a feeling that US can no longer be treated as a permanent ally. When asked about what CEOs of major companies in Europe seek, the key points were - Stability, Predictability and the Rule of law.

Artificial Intelligence: The tech industry is all gung-ho about Artificial Intelligence ('AI') and could be seen by some of the key tech players coming to Davos, including Tesla CEO Elon Musk and Nvidia's Jensen Huang. Though CEOs are upbeat on AI stating that while certain low-end / menial jobs would disappear, there would be new ones to take their place, the Unions representing workers' fear that AI will destroy jobs, economic turmoil and in turn lead to wider income disparity.

Energy: Energy, especially crude oil is once again in the limelight with the unexpected move by the US to take into custody the incumbent Venezuelan President Nicolas Maduro and taking control of one of the largest oil reserves in the world. U.S. Energy Secretary Chris Wright is of the view that global oil production needs to more than double to meet rising energy demand, which is contrarian to the widespread view of oil analysts that demand may peak in the next two decades.

Defence: A huge sigh of relief was felt globally when President Trump announced that there would be no military action on Greenland. However, in the current fragile geo-political environment all the major economies are sprucing up their military power and increased defense spending, including Russia and China which have gone back to their drawing boards.



Indian Economy – A Preamble

Indian economy continues to remain one of the world's fastest-growing economies and well-positioned to attain high middle-income status by 2047. India with a Gross Domestic Product ('GDP') of USD 4.18 trillion has surpassed Japan to become the fourth largest economy in the world and in sight to replace Germany as the third largest with a projected GDP of USD 7.3 trillion by 2030 as per the IMF Report. *High-frequency indicators ('HFIs')* including, inflation remaining below the tolerance threshold, unemployment on a declining trajectory and export performance continuing to improve, are all signs of sustainable economic activity.

In the backdrop of ever shifting geopolitical alignments, India has secured a "*mother of all deals*" with the European Union ('EU') by signing a Free Trade Agreement ('FTA'), thereby creating a combined market of ~ INR 2,091.6 lakh Crore (equivalent to USD 24 trillion) and creating opportunities for ~ 2 billion people of India and the EU.

- India has thus gained preferential access to the European markets across 97 per cent of tariff lines, covering 99.5 per cent of trade value, specifically the *immediate duty elimination* in sectors such as textiles, leather and footwear, tea, coffee, spices, sports goods, toys, gems and jewellery and marine products.
- India has in return offered 92.1 per cent of its tariff lines which covers 97.5 per cent of the EU exports, including imports of high technology goods from the EU, which is expected to diversify India's import sources, thereby spreading the risk thereby benefiting the end users / customers.
- Preferential Market Access for agricultural products like tea, coffee, spices, grapes, fresh vegetables and fruits as well as for processed food products are likely to make them competitive in the EU.

As we finalize this publication, in a surprising turn of events, India and the US are also on the cusp of a breakthrough trade deal which the BJP describes as 'deal of the century'! Reports suggest that the reciprocal tariff imposed by Trump administration will go down to 18%, being lowest among our neighbors.

Mr. V. Anantha Nageswaran, the Chief Economic Advisor ('CEA') to the Government of India has dwelled upon certain very pertinent and relevant points in his preamble to the Economic Survey 2026. As per his observation, there could be one of the three global scenarios likely to play out in the year 2026:

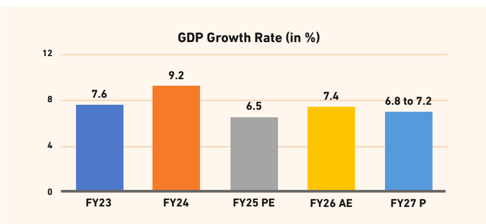
- Best case scenario is where the world operates similar to as it performed in 2025 but with enhanced turmoil and fragility. Geopolitical escalations and financial stress may create volatility and trade wars but government interventions will stabilize the situation aptly termed as *managed disorder.*

- Second scenario is where there is a significant risk of multi-polar breakdown and economies across the globe use coercive trade tactics, including tariffs, sanctions and other countermeasures to safeguard national interests. This can result in inward looking policies by the nations to address their local populace at the expense of larger global interests. There could be threats to the financial systems seen from the recent transfer of up to USD 120 billion of data centre spending off their balance sheets to Special Purpose Vehicles ('SPV') by global tech companies investing in AI and the unwinding of Yen carry trades.
- Worst case scenario is where systemic risks from financial, technological and geopolitical unfold at the same time resulting in flight of capital to safety, resulting in tightening of financial conditions, risk aversion and overall squeezing of capital flows. Though the probability associated with this scenario is lower, the risks associated from this scenario ring a bell to the financial meltdown of 2008.

Given whichever scenario plays out in FY26, the Survey alludes to the point that India is running a marathon and not a sprint. Events and situations unfurling in the short term may impact the rate of progress for India momentarily, but the long-term vision of the country continues to remain intact and on course for *Viksit Bharat by 2047.*

Economy Survey 2025-26 – Key Highlights

- First Advance Estimates project Real Gross Domestic Project ('GDP') growth and Gross Value Added ('GVA') growth for FY26 to 7.4 per cent and 7.3 per cent respectively.



- India's Foreign Exchange Reserves rise to USD 701.4 Billion as of January 16, 2026, thereby providing cover for 11 months of Imports and 94 per cent of External Debt.
- Domestic Inflation averaged 1.7 per cent for the period April-December FY25.
- Share of India's Global Merchandise Exports increased from around 1 per cent in FY05 to nearly double of 1.8 per cent by FY24. Similarly, its share in global commercial services exports has more than doubled, rising from 2 per cent to 4.3 per cent.
- Services Exports reached an all-time high of USD 387.6 billion in FY25.
- Manufacturing GVA grew by 7.72 per cent in Ql and 9.13 per cent in Q2 of FY26.
- India's Foodgrain Production is estimated to have reached 3,577.3 Lakh Metric Tonnes ('LMT') in Agriculture Year 2024-25, showing an increase of 254.3 LMT over the previous year.
- India continues as the World's largest recipient of foreign remittances, with inflows of USD 135.4 Billion in FY25.
- Gross Non-Performing Assets ('GNPAs') hit a multi-decade low of 2.2 per cent in September 2025.
- G RAM G Bill, 2025, also known as the Viksit Bharat—Guarantee for Rozgar and Ajeevika Mission ('Gramin') introduced to replace the Mahatma Gandhi National Rural Employment Guarantee Act ('MGNREGA') with a view to align rural employment with Viksit Bharat 2047 vision.

- Production Linked Incentive ('PLI') Schemes have been a success with 14 Sectors having attracted over investment of over 2.0 Lakh Crore, generating incremental production / sales of ~18.7 Lakh Crore and creating more than 12.6 Lakh Jobs as of September 2025.
- India has reached the enviable rank of 3rd position globally in overall Renewable Energy and Installed Solar Capacity.
- Multidimensional Poverty Index ('MPI') as measured by Niti Aayog showed a decline from 55.3 per cent FY06 to 11.28 per cent in FY23.
- India's Semiconductor Mission has resulted in an exponential increase in domestic capabilities with investments in 10 Projects totalling to ~1.60 Lakh Crore.

State of the Indian Economy

- The State of the Indian Economy has to be looked at from a macro standpoint where the global situation has seen major upheavals since the release of previous Economic Survey in January 2025.
- The single most disruptive action taken by the USA was the introduction of tariffs on its trading partners. The reciprocal tariffs announced by the US in April 2025 sparked concerns on global economic growth and higher inflation but were ameliorated with the partial rollback of tariffs by the US over the course of the year.
- Growth in the US was majorly driven by investment in artificial intelligence ('AI') with the total IT investment, including spending on equipment and software to facilitate AI use accounting for nearly half of GDP growth.
- For the European Union ('EU'), inflation was within tolerance level, but growth was mixed with only Spain expected to outperform the rest of the EU.
- For China, the signals were mixed with tepid local growth, primarily on account of crisis in property sector but balanced by out performance in the external trade sector, with merchandise exports as key driver.
- Given that global geopolitical considerations are going to dictate the performance in the short term, India has managed to chart a strong growth path with First Advance Estimates ('FAE') for FY26 showing the real GDP growth rate at 7.4 per cent and the GVA growth rate at 7.3 per cent.
- On the demand side, the share of final private consumption expenditure ('PFCE') in GDP rose to 61.5 per cent in FY26 being the highest level since FY12. The strength in consumption reflected in the supportive macroenvironment, characterized by low inflation, stable employment conditions and rising real purchasing power.
- Even though domestic drivers remained the key to growth in FY26, external demand, with a share of 21.6 per cent of GDP too supported the demand side growth. In the first half of FY26, exports of goods and services grew by 5.9 per cent, in excess of the growth seen previous year and remaining above the pre-pandemic average.
- Investment too has continued to buoy growth in FY26 with the share of gross fixed capital formation ('GFCF') estimated at 30.0 per cent. Investment activity grew in the first half of the year, with GFCF expanding by 7.6 per cent over the corresponding period last year and remaining above the pre-pandemic average of 7.1 per cent.
- Service has remained an outlier component of the GVA with an estimated growth of 9.1 per cent in FY26, up from 7.2 per cent in FY25 thereby indicating a further acceleration in services-led expansion.
- Slower growth of key trading partners, tariff induced disruptions, volatility in capital flows and supply chain disruptions could weigh on the exports and investor sentiment for India.

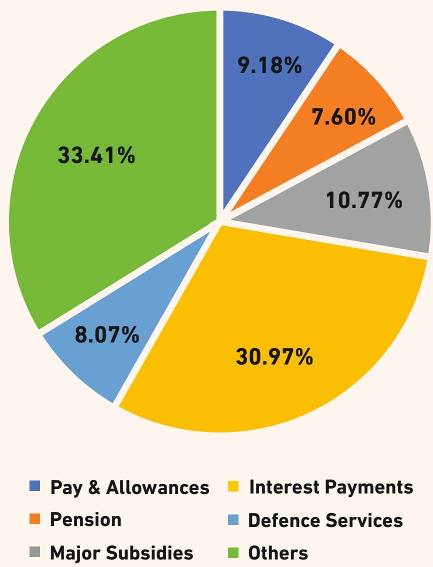
- Key is to ensure that consumption demand remains stable and private investments continues so as to have minimal impact on domestic economy in the short and medium term.

Fiscal Developments: Anchoring Stability through Credible Consolidation

The revenue receipts of the Centre have improved significantly from an average of about 8.5 per cent of GDP during the period FY16 to FY20 to around 9.1 per cent of GDP for the period from FY22 to FY25, primarily due to buoyant tax collections. The revenue expenditure has come down from 13.6 per cent of GDP in FY22 to 10.9 per cent in FY25 while the capital expenditure has seen an increment from an average of 1.7 per cent of GDP during the period FY16 to FY20 to around 3 per cent for the period between FY22 to FY25.

- Major development for the Indian economy in 2025 were the three sovereign credit rating upgrades on account of India's prudent fiscal management supported by sustained deficit reduction, improved revenue uptake and a shift in public spending toward growth-enhancing capital investment.
- The fiscal deficit declined from 9.2 per cent of GDP in FY21 to 4.8 per cent of GDP in FY25 PA ('Provisional Actuals'), which is projected to further come down to 4.4 per cent of GDP in FY26.
- The buoyant tax collection was on account of increase in aggregate corporate tax profit of listed companies from INR 2.5 trillion in FY21 to INR 7.1 trillion in FY25 as per Reserve Bank of India data.
- Gross GST revenue during April-December 2025 stood at INR 17.4 lakh crore, resulting in YoY growth of 6.7 per cent, which is broadly aligned with the prevailing nominal GDP growth conditions. The rationalisation of GST rates expected to spruce demand, improve competitiveness while maintaining revenue realizations.
- Divestment proceeds by Government mobilized ~INR 7,717.02 crores in form of non-debt capital receipts.
- Government thinking of redefining 'Government Company' under the Companies Act, restricted to listed entities so as to allow them to remain government companies with only 26 per cent ownership.
- Outstanding liabilities of the Central Government have increased from 49.1 per cent of GDP in FY19 to 55.7 per cent of GDP in FY25RE ('Revised Estimates').
- Revenue expenditure has moderated from 13.6 per cent of GDP in FY22 to 10.9 per cent in FY25PA.

Revenue Expenditure Components(%) FY25 PA

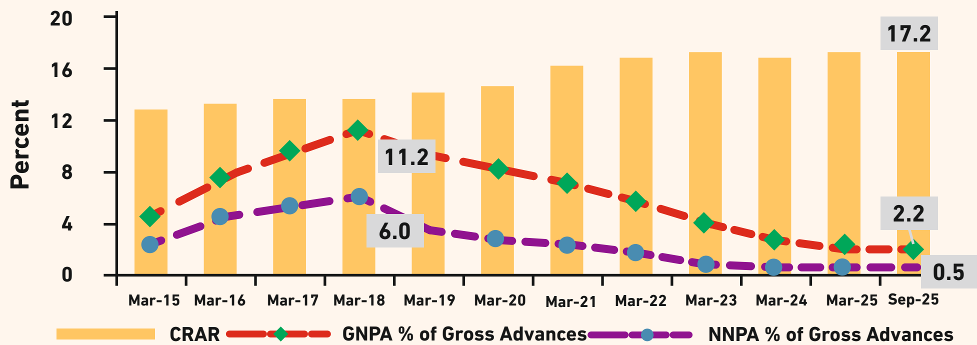


Source: Union budget documents and Controller General of Accounts('CGA')

Monetary Management and Financial Intermediation: Refining the Regulatory Touch

India's monetary and financial sectors have seen buoyant performance during April-December 2025. The household financial savings have shifted towards equities and mutual funds thereby reflecting the deepening financialization of domestic savings, moving from low return bank deposits. Though India's financial system is becoming resilient, diversified and inclusive, it faces new challenges in terms of improvement in regulations, managing the unfettered use of AI in finance and scaling up to meet the aspirational demands.

- First half of CY25 saw the global financial markets reacting violently to the tariff announcements by the US government. Global policy uncertainty increased following the announcement, prompting investors to reduce their exposure to the USD and seek safe-haven assets, such as gold and silver.
- The Reserve Bank of India's Monetary Policy Committee ('MPC') cumulatively reduced the repo rate by 100 basis points during its meetings from April-December 2025, with an aim to boost credit flow, investment, and overall economic activity.
- The RBI injected liquidity into the system through Open Market Operations ('OMO') purchases of INR 3.39 lakh crore and a 3-year USD/INR buy-sell swap of USD 5 billion during April-December 2025.
- The asset quality of Scheduled Commercial Banks ('SCBs') is at a multi-decadal low level with GNPA ratio stands at 2.2 per cent and net NPA ratio at 0.5 per cent in September 2025. At the same time, the capital to-risk-weighted-asset ratio (CRAR) of the SCBs remained strong at 17.2 per cent as of September 2025.

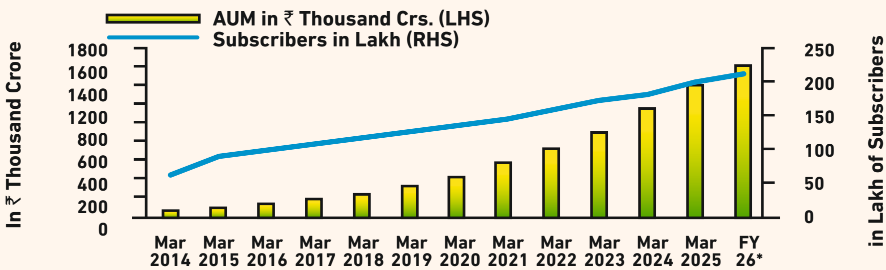


Source: RBI Financial Stability Report, Various Issues.

- 57 per cent of the Corporate Insolvency Resolution Process ('CIRP') proceedings closed resulted in going-concern rescue while 43 per cent ended in liquidation as of September 2025. From the 1,300 cases that resulted in a resolution process, creditors realised INR 3.99 lakh crore.
- The total resource mobilization from primary markets (debt and equity combined) stands at INR 10.7 lakh crore from April-December 2025. There were 94 listings on the main board and 217 on SME board from April-December 2025.
- The Foreign Portfolio Investment were overall net sellers of Indian securities from April-December 2025 due to the relative

underperformance of Indian equities, trade and policy uncertainties, the depreciation of the Indian rupee, and a broad-based global risk-off sentiment amid elevated U.S. bond yields.

- As of December 31, 2025, there were 211.7 lakh subscribers to National Pension System ('NPS') and managed assets worth INR 16.1 crore. NPS subscribers have grown at a Compound Annual Growth Rate ('CAGR') of 9.5 per cent, and the Assets Under Management ('AUM') have grown at a CAGR of 37.3 per cent during the period FY15 to FY25.
- The Insurance sector's financial depth has strengthened with AUM reaching INR 74.4 lakh crore in FY25. The life insurance segment continues to dominate the insurance sector with 91 per cent of the total AUM. In 'non-life' insurance segment, health insurance is now the leading business line.



Source: PFRDA website accessed on 17 January 2025. *Note: FY26* As of 31 December 2025.*

External Sector: Playing the Long Game

India's external performance reflects resilience to global shocks and showcases the robust structural characteristics associated with a rapidly growing economy. The expansion of higher-value manufacturing exports in electronics, pharmaceuticals, and electrical machinery along with diversification of export destinations and import sources has strengthened home grown resilience amidst rising protectionism and tariff uncertainties.

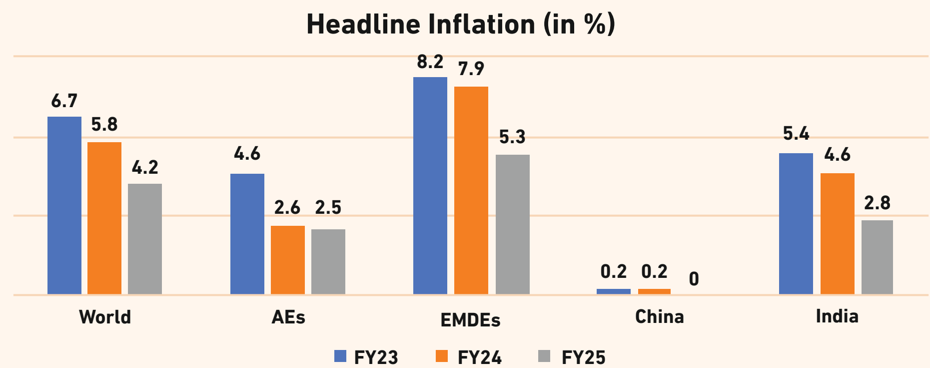
- India is currently subject to an effective export tariff rate of 50 per cent on goods exported to the US, which is among the highest imposed on any country. This led to a YoY decline in exports to the US during the period April-November 2025, while India's exports to the world have shown positive growth.
- The Current Account Deficit ('CAD') moderated to USD 15 billion (0.8 per cent of GDP) in H1 FY26 from USD 25.3 billion (1.3 per cent of GDP) in H1 FY25 amid services surplus and inflow of remittances.
- India has consistently attracted sizeable gross investment inflows, amounting to 18.5 per cent of GDP in FY25 and 16.9 per cent in H1 FY26, even amid tightening global financial conditions.
- The country's foreign exchange reserves increased to USD 701.4 billion as of January 16, 2026 from USD 668.34 billion as of FY25.
- India ranked 21st worldwide and 11th within the G20 at end-December 2024, with an external debt stock of USD 718.2 billion, a 10.7 per cent increase YoY. India with an external debt-to-GDP ratio of 18.4 per cent is well below that of many large economies.

- Between April 2025 to January 2026, the Indian Rupee depreciated by approximately 5.4 per cent against the USD, making it one of the most depreciated currencies alongside the Japanese Yen (-5.5).

Inflation: Tamed and Anchored

Globally, inflation has moderated significantly from its post-pandemic highs, with advanced economies stabilizing at 2–3 per cent and emerging markets, including India, experiencing a notable decrease in the rate of inflation due to easing commodity prices, as well as responsive monetary policies by central banks.

- The global headline inflation was at 4.2 per cent in CY25. Following the post-pandemic surge to 7.3 per cent, inflation rates have stabilized in the range of 2-3 per cent in Advanced Economies ('AEs'), while they have moderated in Emerging Market and Developing Economies ('EMDEs') to 5.3 per cent from 9.7 per cent. According to IMF records, India recorded an inflation rate of 2.8 per cent, while China continued to experience price stagnation. The headline inflation for various economies is as under:



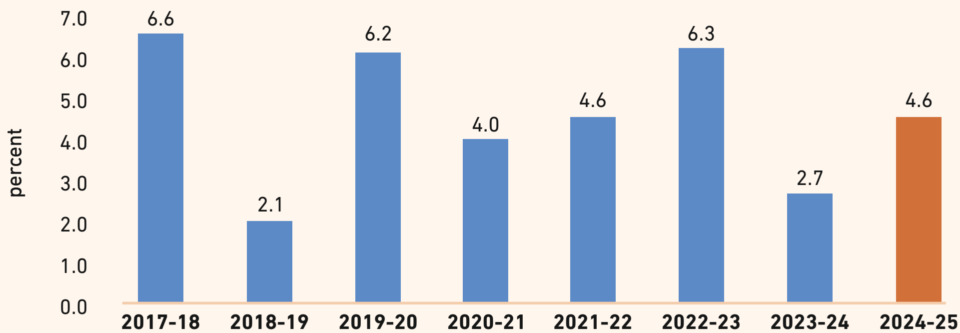
Source: IMF World Economic Outlook Database; EMDEs include China and India

- For India, over the past four years, the average retail inflation, as measured by the Consumer Price Index ('CPI'), has followed a downward trend, declining from 6.7 per cent in FY23 to 1.7 per cent in April–December 2025.
- The average core inflation shows an increase from 3.5 per cent in FY25 to about 4.3 per cent in December 2025, largely driven by sharp increase in the price of gold and silver, both touching lifetime highs, amidst heightened global uncertainty and flight to safety.
- In December 2025, RBI revised its inflation projections for FY26 from 2.6 per cent to 2.0 per cent, owing to a good kharif harvest and healthy rabi sowing, while the IMF has projected an inflation rate of 2.8 per cent in FY26 and 4.0 per cent in FY27, showing a divergence from projections of the RBI.

Agriculture and Food Management: Raising Productivity, Securing Income and Ensuring Food Security

- The agriculture sector is a vital pillar of India's economy and rural society, contributing significantly to employment, income generation and food security. As the sector evolves with increasing diversification into allied activities, it continues to remain central to achieving sustainable development, poverty reduction and nutritional security.

- Agriculture and allied activities contribute nearly 20 per cent to India's National Income and support 46.1 per cent of the country's workforce. The sector recorded an average annual growth of 4.4 per cent over the past five years, with 3.5 per cent growth in Q2 FY25 and a decadal growth rate of 4.45 per cent (FY16–FY25), driven by sustained policy support and a focus on sustainability.



Source: National Accounts Statistics, MoSPI

- Between FY15 and FY24, livestock Gross Value Added ('GVA') rose by nearly 195 per cent (CAGR of 12.77 per cent at current prices), while fish production increased by over 140 per cent during FY14 –FY25, reflecting diversification beyond crop farming.

- Horticulture now accounts for about 33 per cent of agricultural GVA, with production reaching 362.08 million tonnes in FY25, surpassing foodgrain output and highlighting a shift towards higher-value crops.

- The Kisan Credit Card ('KCC') scheme, introduced to provide farmers with hassle-free access to working capital, has led to 7.75 crore operational accounts with loan of INR 10.20 lakh crore by March 2025.

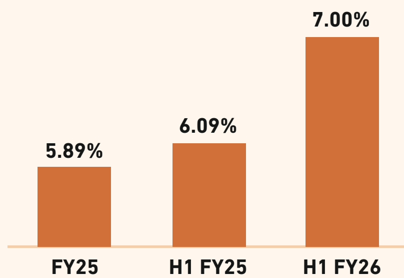
- Farmers' incomes are supported through Minimum Support Price ('MSP') and Pradhan Mantri Kisan Samman Nidhi Schemes ('PM-KISAN'), complemented by pension coverage under Pradhan Mantri Kisan Maandhan Yojana ('PMKMY').

Services: From Stability to New Frontiers

- The services sector has emerged as the backbone of India's growth in a challenging global environment. With its expanding role in output, employment, exports, and investment, the sector continues to provide economic stability while opening new avenues for innovation and global integration.
- The Service sector contributes over 50 per cent of India's GVA, emerging as the economy's most stable and resilient growth pillar. With an average annual growth of 7–8 per cent, services consistently outperform agriculture and industry.
- India is the 7th largest exporter of services, with its share in global services exports increasing from 2 per cent (FY05) to 4.3 per cent (FY24), underscoring growing competitiveness.
- The services sector accounts for about 80.2 per cent of total Foreign Direct Investment ('FDI') inflows during FY23–FY25 as compared to pre-pandemic period (FY16-FY20), with information and communication services, professional services, finance, and energy-related services being the major contributors of FDI inflows.
- In first half (H1) of FY26, service sector contributed 53.6 per cent of GDP, with GVA growth accelerating to 9.3 per cent from 7.0 per cent in H1 FY25 with financial, real estate, and professional services being the key drivers of service sector growth.
- The Service sector has generated 30 per cent of the total employment with 61.9 per cent being urban employment generation. As per the EPFO data for April- July FY26, services have accounted for about 51.7 per cent of the net employment additions.

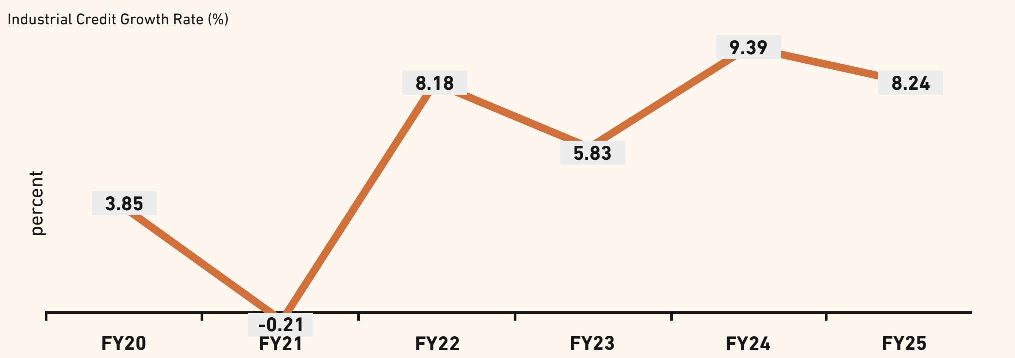
Industry's Next Leap: Structural Transformation and Global Integration

- India's industrial sector is entering a decisive phase of transformation amid global uncertainty and a clear shift towards high-technology and innovation-driven manufacturing. Supported by targeted policy interventions and infrastructure-led reforms, it is positioning itself as a competitive and indispensable participant in global value chains.
- Despite global headwinds such as geopolitical tensions and subdued demands, India's industrial sector regained momentum in FY26, with Industry GVA growing at 7 per cent year on year basis in the H1 FY26 from 5.9 per cent in FY25.



Source: National Accounts Statistics, MoSPI

- There is a gradual shift towards Medium and High Technology which now accounts for about 46.3 per cent of India's Manufacturing GVA. The manufacturing GVA has also expanded to 7.71 per cent and 9.13 per cent in Q1 and Q2 respectively, primarily driven by ongoing structural shifts within the sector.
- The bank based industrial credit growth has reduced from 9.39 per cent in FY25 to 8.24 per cent in FY25 due to shift towards non-bank sources commercial paper and corporate bonds.
- To enhance the competitiveness of the Capital Goods Sector, Phase II of the Scheme on Enhancement of Competitiveness in the Indian Capital Goods Sector was initiated, wherein a total of 29 projects with total cost of INR 891.37 crore with government contribution of INR 714.64 crore have been sanctioned.
- India's research and development ecosystem has strengthened significantly with its Global Innovation Index rank improving to 38th in 2025 from 66th in 2019.



Source: Database on Indian Economy, Reserve Bank of India.

Investment and Infrastructure: Strengthening Connectivity, Capacity and Competitiveness

- India's infrastructure and investment cycle continues to be a key pillar of economic growth supported by sustained public capital expenditure and rising private participation. Policy reforms, improved financing mechanisms, and large-scale project execution are strengthening the country's long-term growth potential.
- Central Government's capital expenditure has risen sharply by 89 per cent, from INR 5.9 lakh crore in FY22 to INR 11.1 lakh crore in FY25 (BE), underlining a clear policy focus on infrastructure-driven growth.
- Infrastructure outlay in India carries an estimated output multiplier of 2.5–3.0, generating spillover effect across employment, demand, and private investment.
- During FY20 to FY25, the credit flows from Non-Bank Financial Companies ('NBFCs') grew at CAGR of 43.3 per cent, outpacing 25 per cent CAGR of Bank Credit. Investment Trusts ('InvITs') and Real Estate Investment Trusts ('REITs'), have cumulatively mobilised over INR 5 lakh crore, emerging as credible long-term funding vehicles for infrastructure assets.

- India has ranked 5th globally in terms of private investment in infrastructure among low- and middle-income economies and is also the largest recipient of PPI investment in South Asia, accounting for over 90 per cent of the region's total private infrastructure investment.
- As of March 2025, the rail network has expanded to 69,439 km and the target is to extend further by 3,500 km in FY26.
- The PM Gati Shakti National Master Plan integrates more than 1,600 data layers across more than 40 central ministries, significantly enhancing inter-agency coordination and project efficiency.

Environment and Climate Change: Building a Resilient, Competitive and Development-Driven India

- India aims for robust economic growth and developed nation status by 2047 by focusing on inclusive and sustainable development with a low-carbon footprint. Despite challenges in renewable energy deployment and climate change vulnerability, the country is prioritizing adaptation strategies and initiatives.
- India's per capita Greenhouse Gases ('GHG') emissions stood at 2.9 tonnes per person in 2024 which is below the global average of 6.7 tonnes per person, making adaptation central to protect livelihoods, infrastructure, and economic stability via public investment and community action.
- India's domestic spending on climate adaptation and resilience increased from 3.7 per cent of GDP in FY16 to 5.6 per cent of GDP in FY22, reflecting a strategic pivot towards self-funded resilience.
- As of December 2025, 51.9 per cent of India's installed power capacity comes from non-fossil fuel sources surpassing its Nationally Determined Contribution ('NDC') target ahead of schedule.
- During FY26, the country installed 38.6 GW of renewable energy capacity, including 30.2 GW of solar and 4.5 GW of wind power, ranking it fourth globally in total installed renewable energy capacity.
- Government has launched Mission LiFE at COP26, which integrates behavioural change with policy action, embedding sustainable consumption and production practices into India's climate response.

Education and Health: What Works and What's Next

The government through multiple initiatives is trying to focus on enhancing education and healthcare, the core pillars of human capital and overall well-being. In the education space, progress in school and higher education is on the back of enhanced quality and access through community engagement, timely assessments, improved accountability and strong alignment between education and skill requirements. The health outcomes too have improved through infrastructure expansion and targeted policies.

- India has one of the world's largest school systems where the government schools constitute 69 per cent of all schools, enrolling 50 per cent of all students, and the private schools account for 26 per cent of schools and 41 per cent of total enrolment.
- The Time Use Survey 2024 shows that participation in learning among children aged 6–14 years increased from 85.9 per cent in FY19 to 89.3 percent in FY24.
- The total number of Higher Education Institutions ('HEIs') increased from 51,534 in FY15 to 70,018 by FY25. During the same period, the number of universities rose from 760 to 1,338, while colleges increased from 38,498 to 52,081.

- In India, multiple measures have been launched to address digital addiction among children akin to stringent laws passed in Australia and South Korea. The Central Board for Secondary Education ('CBSE') has in fact issued guidelines on safe internet use in schools and school buses.
- The notification of Online Gaming (Regulation) Act, 2025 represents a major step to address digital addiction and financial harm among youth by banning online money games involving wagering.
- India's health and education sectors require unwavering focus to unlock the nation's true potential, especially in addressing double burden of Communicable Diseases ('CDs') and Non-Communicable Diseases ('NCDs') through increasing digital addiction, concerning mental health issues, poor nutrition, and increasing obesity.

Employment and Skill Development: Getting Skilling Right

- India's social sector and labour market reforms are moving in sync with economic expansion, supported by higher public spending, digital delivery of welfare, and targeted employment initiatives. Investments in health, education, social protection and job creation are strengthening human capital and improving income security.
- India has the largest working age population with nearly 65 per cent of the population falling with 15-59 age group. Large working age population brings not only opportunities but challenges in the labour market and social support systems.
- A total of 56.2 crore people (aged 15 years and above) were employed in Q2 FY26, reflecting a creation of around 8.7 lakh new jobs in Q2 compared to Ql of FY26.
- According to Periodic Labour Force Survey ('PLFS'), India added over 6 crore jobs between FY18 and FY23, driven by construction, manufacturing, services, and self-employment. The all-India unemployment rate fell to around 3.2 per cent in FY23, one of the lowest levels in recent years.
- According to PLFS, vocational training and skill development have also increased 8.1 per cent in FY18 to 34.7 per cent in FY24, reflecting the positive impact of skilling initiatives in India.
- The Female Labour Force Participation Rate (FLFPR) rose sharply to over 37 per cent in FY2023–24, supported by education, self-employment, and SHG-led activities.

Rural Development and Social Progress: From Participation to Partnership

Inclusive growth under the development model of 'Sabka Saath, Sabka Vikas, Sabka Prayas, Sabka Vishwas' has been the mantra for rural transformation and inclusive growth story in India. Affirmative actions by the Government in areas such as education, healthcare and skill development have ensured that the benefits of social and economic progress impact the most vulnerable sections of the society.

- World Bank's ('WB') International Poverty Line ('IPL'), a metric representing the minimum amount of money a person needs per day on basic necessities such as food, clothing, and shelter has been revised in June 2025 from USD 2.15 to USD 3.00 a day. The poverty rates as per the revised metric of WB for India are 5.3 per cent for extreme poverty and 23.9 per cent for lower-middle-income poverty for FY23.
- Satat Jeevikoparjan Yojana ('SJY') in Bihar and the Kerala poverty eradication model by the Kerala Government have showcased that the involvement of the State Government and the community with a multipronged strategy of continuous support and monitoring to 'push' the vulnerable out of the poverty cycle through handholding support, training, access to

finance, and basic necessities can yield fruitful results.

- NABARD's Rural Economic Conditions and Sentiments Survey ('RECSS') released in November 2025 shows that Government welfare transfers and public investments have led to a broad-based strengthening of rural economic fundamentals including healthy demand / consumption, enhanced income growth, higher investment capabilities, improved credit access loan repayment conditions and an overall satisfaction with infrastructure development.

Evolution of AI Ecosystem in India: The Way Forward

Artificial Intelligence ('AI') is reshaping the global dynamics in ways never imagined or envisaged at a breakneck speed with hardly any reaction time. In this environment marked by rapid technological change and persistent uncertainty, India has to brace itself to not only face the challenges but to maximize the benefits from AI without its disruptive capabilities.

- Certain studies, including a study by Yale University's Budget Lab has indicated that the broader labour market in the United States has not experienced a discernible disruption due to AI, which implies that the fears of mass unemployment due to job losses may have been hyped up but caution is still warranted as India attempts to solve the puzzle of AI and impact on labour.
- For labour dependent economies such as India, firms maximizing productivity gains by rapidly scaling up AI adoption may result in a tension between aggregate productivity gains sought by such firms and employment absorption.
- Regulatory framework for the AI adoption could also be a challenge for countries like India where IT rules are fragmented and resource-constrained in this highly innovation landscape. This can create systemic risks particularly where AI is deployed in critical sectors such as healthcare, education, governance, finance etc.
- There is no one stop, single solution to the development, usage and regulation of AI in India. The country must seek an optimal solution where systems need to be developed internally and not replicate frontier scale model development. A bottom-up strategy of open source and inter-operable systems with shared physical and digital infrastructure is the credible path for value creation through AI.

Urbanization: Making India's Cities Work for its Citizens

Indian cities are a microcosm of the country itself where millions of residents live, work, travel, recreate and spend practically the whole of their fruitful years within the precincts. Due to the change in the GDP mix from primarily agrarian society to being a service / manufacturing oriented one, there is huge flow of human capital from rural and semi urban areas to cities where job opportunities exist. This has resulted in urban pressures from supply-side constraints in limited land availability, housing and mobility. High density, unclear titles and limited land recycling constrained affordable housing and inadequate transport systems further add to the stresses and pressures on living in urban areas.

- Survey has highlighted that in many cities, land has become dead capital due to restrictive land-use regulations, title insecurity, fragmented markets, speculative incentives that lead to low land recycling.
- A Centre for Science and Environment ('CSE') report on Delhi's congestion troubles states that an unskilled worker stands to lose between INR 7,200 - INR 19,600 per year due to congestion. Another working paper estimated the loss of productive hours due to the late arrivals caused by traffic congestion to be

around 7.07 lakh hours translated to a monetary cost of ~ INR 11.7 billion for Bengaluru in FY18.

- Progress under Swachh Bharat Mission – Urban 2.0 ('SBM-U 2.0') though significant has been uneven. Door-to-door collection of municipal solid waste ('MSW') that was negligible in FY15 has expanded to 98 per cent of urban wards before the end of FY26, led by a fleet of ~ 2.5 lakh waste collection vehicles.
- As per the Survey, India is at a critical juncture in its urbanization journey where the promise of building India's urban future lies in making cities economically dynamic, socially inclusive, environmentally sustainable and institutionally viable.

Import Substitution, Building Strategic Resilience and Strategic Indispensability

India as a financial powerhouse has prepared a solid macroeconomic foundation over the past decade or two through consistent growth, financial stability and policy autonomy given the external headwinds. The question now lies with how India as a nation is going to face the imminent challenges from geopolitical fragmentation, volatile capital flows and rapidly evolving technological changes.

- Swadeshi is no longer a term coined from the pre-independence era but a new reality of inward-looking economic policies by major trading nations. This is evident from the surprise reciprocal tariffs and penal tariffs imposed by the US on India in April and August of 2025.
- China has launched a path breaking concept of the Hainan Free Trade Port ('FTP') as an experiment to open its economy more extensively than anywhere else on the mainland. Instead of being just a city or a small zone such a Shenzhen or Guangzhou, the whole island of Hainan is turned into a special trade and business zone with eased rules on trade, customs, taxes, investments and visas affecting supply-chain routing, tourism and corporate investment decisions in Asia-Pacific region in the long term.
- In the constantly changing geopolitical environment, the Swadeshi ideology is more than merely import substitution. Building in-house capabilities in critical areas will ensure de-coupling from the vulnerabilities faced through dependence on defence-critical systems, core infrastructure inputs, energy security components, public health essentials and foundational industrial technologies.
- Survey highlights than East Asian experiences from countries such as Japan, South Korea, China & Vietnam share a common institutional theme, the overarching presence of an entrepreneurial state. This implication is not to replace markets, but where the state is willing to experiment, take calculated risks, absorb failures, and dynamically reallocate support i.e. a proactive government.
- The challenge faced by public administration is not only limited to expanding capacity but to repurpose the idea of service itself. Survey highlights that modern governance increasingly requires systems that can learn, adapt and absorb change rather than be framed merely to comply with static rules.
- Delayed gratification is ignored where shortcuts are found as a substitute for capability, visibility for depth, and speed for learning. Survey highlights that while competing at the global stage, whether in trade, commerce or sports there is no substitute to incurring near-term costs for long term returns that are uncertain, delayed, and often invisible in the immediate term.
- Deregulation and compliance reduction is a major institutional challenge that needs to be tackled through coordination across agencies, exercise of discretion under uncertainty, ability to learn and correct course and to re-orient the direction of administrative focus from micro policing to problem-solving and delivery.

Building
Successful
Partnerships

INDIA BUDGET 2026

India-USA Trade Deal

Bilateral trade negotiations between India and the United States encompass diverse sectors including agriculture, manufacturing, technology, and services, reflecting the strategic economic partnership aimed at expanding trade volumes and deepening commercial ties between the two largest democracies.

Direct Tax

Personal Tax

Recognized Provident Funds – Reconciliation in limits for tax neutrality

As per the provisions of section 17(1)(h) of the Income-tax Act, 2025 ('ITA 2025'), employer's contribution to Recognized Provident Funds in excess of INR 7.5 lakhs is taxable as salary in the hands of employees.

Further, the provident funds (other than those governed by Provident Funds Act 1925) are subject to fulfillment of conditions given in Schedule XI of ITA 2025 [(corresponds to Schedule IV of the Income-tax Act 1961 ('ITA 1961')]. Considering that absolute threshold of INR 7.5 lakhs has been prescribed u/s. 17(1)(h) in respect of aggregate amount of employer's contribution to PF, EPF and Superannuation Fund, it has now been proposed in the Finance Bill 2026 ('the Bill') to relax certain conditions whereby employer's contribution in excess of 12% of salary is not deemed to be income in the hands of the employee.

Further, contribution by employer shall now be allowed to exceed the amount of contribution made by employee without any restrictions.

Existing provisions of Schedule IV of ITA 1961 require specifically to obtain exemption u/s. 17 of Employee Provident Fund and Miscellaneous Provisions Act 1952 ('EPF Act 1952') to get exemption from provisions of scheme notified under said Act. The Schedule XI of ITA 2025 is granting unconditional exemption i.e., no need to obtain specific exemption under EPF Act 1952. Considering that this was an unintended change, and to align provisions of Schedule XI of ITA 2025 in line with Schedule IV of ITA 1961, the amendment has been proposed to bring provisions in line with Schedule IV of ITA 1961.

Further, the existing provisions of Rule 75 of Income tax Rules, 1962 restrict contribution by employer and employee to INR 250 per month in case where employees own shares exceeding 10% of voting power in such employer company. It has been proposed to remove relevant provisions to prescribe similar conditions under Part C of Schedule XI of ITA 2025.

Further, Recognized Provident Funds were not permitted to invest more than 50% of total funds into government securities. However, considering such a condition is in contravention of existing EPF Act 1952, same has been proposed to be done away with.

This amendment is proposed to be effective from April 01, 2026, and be applicable for Financial Year[1] ('FY') 2026-27 onwards.

House Property – Deduction of pre-construction interest

The provision of section 22 of ITA 2025 provides for deduction of interest on borrowed capital from income of house property which is capped up to maximum INR 2 lakhs where the house property is acquired or constructed with borrowed capital and the same is completed within 5 years from end of FY in which capital was borrowed. However, the said cap does not cover the interest paid during the period prior to the acquisition of construction of property which is not in line with the provision of section 24 of ITA 1961 which provided for aggregated limit of deduction of interest capped up to INR 2 Lakhs including the interest on capital borrowed prior to the acquisition/construction of property.

In order to simplify the provisions and align with the provisions with ITA 1961, it is proposed to keep the aggregate limit of deduction of interest on borrowed capital (including interest for the year prior to acquisition/construction of property allowable in five equal instalments) within the overall limit of INR 2 lakhs.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

[1] *The ITA, 2025 refers to FY as tax year. This publication refers to FY throughout for ease of understanding*

Exemption - Disability Pension Income

Disability pension is provided to the Armed Forces personnel who have become incapacitated due to bodily disability arising from military, naval or air force services. The disability pension comprises of service and disability element.

The exemption on disability pension has legislative connection. The Indian Income-tax Act, 1922 recognized the need to provide tax relief to invalided defence personnel. Subsequently, the exemption continued uninterrupted even in the ITA 1961. This continuity was enabled through repeal and savings provisions carried forward from the 1922 Act, government notifications, administrative instructions issued by the Ministry of Defence and Ministry of Finance and clarificatory circulars released by CBDT. Over time, the relevant act and various circulars have reaffirmed that disability pension when linked to service condition should be exempted from income tax given its compensatory in nature and the unique risks borne by Armed Forces members. However, there is no specific enactment of such provision under the law.

In view of the above, it has been proposed to amend Schedule III of ITA 2025 to include within the list of exemption, the amount received by an individual who has been a member of the armed forces (including paramilitary forces) of the Union of India & invalidated out of service on account of bodily disability attributable to or aggravated by such service provided he has not retired on superannuation or otherwise.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Exemption - Interest granted under Motor Vehicles Act, 1988

The ITA 1961 does not specifically mention whether compensation awarded by Tribunal under the Motor Vehicles Act, 1988 to victims can be categorized as a taxable income. Clause (ix) and (ixa) of sub-section (3) of section 194A provides for exclusion from tax withholding on interest on compensation awarded by Motor Accidents Claim Tribunal provided it does not exceed INR 50,000.

Various High Courts[2] have held that compensation granted is classified as damage and not a taxable income. Accordingly, interest awarded by the Motor Accident Claims Tribunal on such compensation is construed as a part of compensation upon which tax is not chargeable.

In view of the above, it has been proposed to specifically include within the list of exempt income under Schedule III of ITA 2025, interest being awarded on account of compensation to accident victims or legal heirs either due to death or on account of permanent disability under the Motor Vehicles Act, 1988.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

La Liga–ISL (Indian Super League) Strategic Partnership

Football collaboration between Spain's La Liga and India's Indian Super League focused on grassroots development, technical training, coaching excellence, youth academies, and knowledge exchange programs aimed at elevating Indian football standards, fostering talent development, and strengthening sports diplomacy between Spain and India.

[2] *Rupesh Rashmikant Shah. v. UOI (2019) 417 ITR 169 (Bom); National Insurance Company Ltd. v. Indra Devi (2018) 259 Taxman 579 (HP); CIT v. Oriental Insurance Co. Ltd. [2012] 27 taxmann.com 28/211 Taxman 369 (All.)*

Corporate Tax

Minimum Alternate Tax now a final tax – A push to concessional tax regime

Domestic Companies & MAT

Under the existing provisions of section 206 of ITA 2025, Minimum Alternate Tax (MAT) is applicable to companies on the book profit as computed under the said provisions if tax payable under normal provision is lower than 15% of Book profit. Further, where the entities discharge tax liability under MAT provisions, the difference between tax payable u/s. 206 of ITA 2025 and tax payable under normal provision is allowed to be carried forward as MAT credit for up to 15 FYs, and is eligible to be set off in subsequent years where the tax payable under normal provisions exceeds the MAT tax liability.

Further, such MAT framework operates only under normal tax regime, and it is not applicable to companies opting for concessional tax regime (22%/15%).

The government has always tried and pushed domestic companies to opt for the concessional tax regime. Further, most of the companies had already transitioned to the new scheme of taxation as the weighted deductions, and exemptions available under the old tax regime had already seen their sunset clauses. The higher depreciation available under the old tax regime is merely a timing difference which is going to accrue under the new tax regime over a period of time. However, companies paying tax under MAT and having accumulated MAT credit do not opt for concessional tax regime as provisions under concessional tax regime do not provide for any carry forward and set off of such accumulated MAT credit.

It is also to be noted that vide amendment in the Finance Act, 2017, the then Section 115JAA of ITA 1961, was amended to increase the maximum period for carrying forward and setting off MAT credit from 10 assessment years ('AY') to 15 AY and the rate of MAT was reduced from 18% to 15% vide AY 2020-21. In view of the above, companies who had huge chunks of brought forward MAT credit were patiently waiting out for exhaustion of MAT credit before transitioning to the concessional tax regime.

Now, the Bill, in order to encourage such companies for early adoption of concessional tax regime has proposed substantial changes whereby it has been provided that no MAT credit shall be generated if such companies continue to pay tax under MAT on or after April 01, 2026. Further, in order to incentivize the companies for adopting concessional tax regime, the Bill proposes to allow MAT credit accumulated up to March 31, 2026 to be set off against the tax payable under concessional tax regime subject to certain conditions if and when such companies opt for such regime on or after April 01, 2026. The proposed amendment is stated as under:

- MAT rate is reduced from 15% to 14%. However, any company being a unit in IFSC shall continue to pay MAT at 9%.
- No generation of MAT credit from FY 2026-27 onwards. This means that if the company has paid taxes under MAT regime (its normal tax liability is lower than MAT), the same shall be considered as final discharge of tax liability. Hence 14%/9% of tax paid under MAT is treated as final tax payment.
- Domestic companies not opting for concessional tax regime on or after April 01, 2026 will not be allowed to set off of unutilised MAT credit up to March 31, 2026 against tax liability arising under normal tax provisions on or after April 01, 2026.
- However, if such companies opt for concessional taxation on or after April 01, 2026, such unutilised MAT credit shall then be allowable as set off against tax liability under concessional tax regime. This effectively forces all domestic companies who have accumulated MAT credits to transition into the new tax regime to set-off accumulated MAT credit up to March 31, 2026 against normal tax liability.
- The set-off of accumulated MAT credit as on March 31, 2026 against tax liability under concessional tax regime is capped to 25% of such tax liability for a FY. Thereafter, the unutilised MAT credit shall be carried forward

to subsequent years for set off in like manner. Hence, under the proposed provision, utilisation of MAT credit against tax liability under concessional tax regime does not have any restrictive condition which caps the utilisation to the differential of the tax liability as per MAT provisions and the normal provision.

- Post transitioning, the period of 15 years is not re-instated. The credit will be allowed to be carried forward only for 15 years from the year in which the tax credit was first generated.
- If a private company or an unlisted public company is converted into a partnership firm or an LLP, the firm or the LLP will not be eligible to carry forward the unutilized MAT credit.

Necessary amendment has been made to the interest computational provisions u/s. 423, 424 and 425 of ITA 2025 to provide that for computation of interest liability, entities in concessional tax regime u/s. 200 of ITA 2025 will consider MAT credit as per the above computation provision. Also, such revised MAT credit will be reduced for computing the self-assessment tax u/s. 266 and 267 of ITA 2025.

In case where, as a result of furnishing an updated return, the MAT credit available u/s. 206(3) or Section 206(4) is reduced for any subsequent year, the assessee shall require to file updated return for each such subsequent year. This is provided by proposing to amend Section 263(6)(e) of ITA 2025.

Companies who had already opted for concessional tax regime u/s. 115BAA of ITA 1961 prior to April 01, 2026, have not given the benefit for utilisation of any accumulated MAT credit which was outstanding immediately preceding the year of adoption of such concessional tax regime.

The tax implication of above amendments on income of a domestic company for FY 2026-27 is explained by following example:

Critical factual assumptions

Particulars for FY 2026-27	INR in Lakhs	Remarks
Normal Taxable Income (if concessional tax regime is not opted)	700	
Normal Taxable Income (if concessional tax regime is opted)	750	
Book Profit (if concessional tax regime is not opted)	500	
Accumulated MAT credit as on March 31, 2026	150	(Out of which INR 50 lacs MAT credit is arising in FY 2011-12)

Building Successful Partnerships | INDIA BUDGET 2026

Unity in Diversity

The Commonwealth Games 2030 in Amdavad is set to be a celebration of unity and diversity, bringing together athletes from across the Commonwealth in a spirit of friendship and fair play.

Analysis *(INR in Lakhs)*

Particulars	Tax Implication for FY 2026-27		
	As per existing ITA 2025	Proposed Amendments -Company has not opted for concessional tax regime	Proposed Amendments -Company has opted for concessional tax regime
Tax as per normal provisions			
Normal Taxable Income	700	700	750
Tax on Above			
@ 25% Plus applicable Surcharge and Cess (ETR 27.82%) (A)	195	195	
@ 22% plus applicable Surcharge and Cess (ETR 25.168%) (A)			189
Tax as per MAT			
Book Profit	500	500	NA
Tax Liability as per 15% (B)	75		NA
Tax Liability as per 14% (B)		70	NA
Effective Tax Liability (Higher of A or B)	195	195	189
Less: MAT credit allowable as deduction (A-B)	120	Not Available	
Less: MAT credit set off (up to 25% of tax payable under concessional tax regime out of MAT credit accumulated up to March 31, 2026 and 15 years time limit is not expired in year of such claim)			47
Net Tax Payable (cash outflow)	75	195	142
Increase/(decrease) in cash outflow as compared to existing provision of ITA 2025		120	67
MAT credit carried forward in future years subject to limit of 15 years period from year of creation	30	100	100
MAT credit lapses as on March 31, 2027 (out of INR 50 lacs for FY 2011-12		50	3

Points for consideration

Although, it is clarified that when a company is converted to LLP, the MAT credit won't be eligible to set off, but no clarity is provided as to what happens in case of amalgamation or demerger between two companies? Earlier tax precedents[3] had held that the successor entity is eligible to claim the set off of brought forward MAT credit and such position remains unaltered. However, the case becomes complex when, there is a merger of company having accumulated MAT credit with a company who has already opted the concessional tax regime prior to April 01, 2026.

Another anomaly which draws our attention is that the proposed amendment has granted the benefit of carry forward of MAT credit as explained above to the companies who exercise the option to offer income to tax at concessional rate of 15% u/s. 201(2) of ITA 2025 (i.e. new manufacturing company). As per the requirements of Section 201(1), the company had to be set up between October 1, 2019 to March 31, 2024, and had to commence manufacturing before March 31, 2024. Now if this provision allows a company to claim benefit of MAT credit as per the amended provisions, it may lead to a possible inference that any company who had set up manufacturing operations during the above mentioned period but had not opted for the concessional rate of 15%, may file relevant declaration in the tax return and opt for the concessional tax regime. Additionally, it can also set off brought forward MAT credit, if any, post April 01, 2026. Similar analogy can also be drawn for existing ITA 1961.

Further, certain companies are claiming profit linked deduction u/s. 80IA/80IB of ITA 1961 and such deduction is also continued under ITA 2025. Depending upon the overall quantification of such deduction vis-a-vis taxable income and accounting profit, the tax liability under normal provision, MAT provision and under concessional tax regime may be different, having an impact on effective tax cash outflow. Such types of companies are therefore required to analyze in detail about implication of above proposed provision regarding the loss of MAT credit if opted for concessional tax regime vis-a-vis payment of MAT @14% being final tax liability under ITA 2025. Such transitioning will also require a detailed analysis if earlier deductions were claimed u/s. 10AA, 32(1)(iia), 32AD, 33AB, 33ABA, 35(1)(ii)/(iia)/(iii), 35(2AA), 35AD, 35CCC, 35CCD of ITA 1961.

Foreign Companies & MAT

Foreign Companies are liable to the provisions of MAT only if they have established a permanent establishment in India and have income arising from business and profession. Other income like royalty, FTS, capital gains are generally taxed at special rates. The Bill has proposed following changes:

- MAT rate is reduced from 15% to 14%. However, assessee being a unit in IFSC shall continue to pay MAT at 9%.
- No generation of MAT credit from FY 2026-27 onwards. This means that if the company has paid taxes under MAT regime (if normal tax liability is lower than MAT), the same shall be considered as final discharge of tax liability. Hence 14%/9% of tax paid under MAT is treated as final tax payment.
- Foreign Companies will be able to utilise MAT credit accumulated up to March 31, 2026 against normal tax liability arising in future to the extent of difference between the normal tax liability and MAT tax liability.
- The balance MAT credit will be allowed to be carried forward for 15 years from the year in which the tax credit was first generated.

This amendment is applicable for ITA 2025 effective from FY 2026-27, thus companies will be able to set off or generate MAT credit as per the provisions of ITA 1961 for AY 2026-27 i.e. FY 2025-26.

[3] Nila Infrastructures Ltd. v. Asstt. CIT [2023] 146 taxmann.com 154/451 ITR 283 (Guj.), Caplin Point Laboratories Ltd ITA No.667/Mds/2013 (ITAT Chennai), Adani Gas Ltd. v. ACIT [IT Appeal No. 2241/Ahd/2011] and Ambuja Cements Ltd. v. DCIT [2019] 111 taxmann.com 10 (Mumbai)

Extension of exemption from MAT to Foreign Companies for certain business

Under section 61 of ITA 2025, income from following business is taxable in the hands of foreign company on presumptive basis:

- operation of ships
- operation of aircraft
- business of civil construction or erection or testing or commissioning of plant or machinery, in connection with a turnkey power project, approved by the Central Government and
- business of providing services or facilities (including supply of plant and machinery on hire) for prospecting, extraction or production of mineral oils.
- operation of cruise ships
- Business of providing services or technology in India to a resident company for the purposes of setting up an electronics manufacturing facility or in connection with manufacturing or producing electronic goods in India

Further, section 206(1)(l)(iii) of ITA 2025 provides that a foreign company where its income comprises solely of profit taxable on presumptive basis from first 4 business referred above, MAT is not applicable to such company.

In order to incentivize remining two businesses, the Bill now provides that MAT is now not applicable in case the income of such company solely from following business also:

- Business of operation of cruise ships
- Business of providing services or technology in India to a resident company for the purposes of setting up an electronics manufacturing facility or in connection with manufacturing or producing electronic goods in India

This proposal provides a boost to foreign entities that wish to provide services to Indian companies for setting up electronic manufacturing set up in India.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Employee's contribution to PF deposited before due date of filing of ITR – Tax deductible

As per section 2(49)(o) of ITA 2025 [2(24)(x) of ITA 1961], any amount received by an employer from his employees as contribution towards any provident fund, superannuation fund, ESIC fund or any other fund for the welfare of such employee is treated as income in the hands of the employer. Further, as per section 29(1)(e) of ITA 2025 [36(1)(va) of ITA 1961] such amount is allowable as deduction while computing business income of the employer provided such contribution of employee is deposited on or before the due date as specified under applicable regulation governing such fund.

Historically, under ITA 1961 claiming the deduction towards employee's welfare measures while computing the 'profits and gains of business or profession', has been a debatable issue as regards the due date for contribution received from employees by interpretation of section 36(1)(va) and section 43B of ITA 1961. The matter was ultimately decided by the Apex Court in the case of **Strides Arcolab Ltd 147 taxmann.com 202** in favour of the Revenue, and it was held that if there is delay of depositing employees' contribution to above fund within applicable due date governing such fund, no deduction u/s 36(1)(va) is allowable even if such contribution received by employee is deposited by employer before filing of its tax return.

At the time of enactment of ITA 2025, the ambiguity leading to above interpretation had been removed and it had been expressly provided that the due date for claiming deduction of employer's contribution to PF and other welfare fund of employees as provided in section 37 of ITA 2025 (43B of ITA 1961) shall not be applicable in respect of deposit of employee's contribution to PF and other welfare fund.

The provision appeared very harsh since delay of one day in making payment of employee's contribution after due date shall permanently not be available as deduction even if paid later. Considering the various representations received in this regard, the Bill now proposes to relax such condition and provide that deduction of payment of employee's contribution of PF, ESIC and other welfare fund shall be allowable under ITA 2025 provided the employer deposits the same on or before the due date of filing return of income as specified in section 263(1) of ITA 2025.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

It is to be noted that no such amendment is proposed in ITA 1961 and therefore, the existing provision of ITA 1961 shall apply for FY 2025-26. Considering the decision of Apex Court in the case of Strides supra, for such financial year, any deposit of employees' contribution to above funds on or after the due date specified for such fund under applicable law is not allowable as deduction.

Dividend income taxable under IFOS – No expenditure deductible

In respect of dividend income, the existing provisions of section 93(1)(a) of ITA 2025 (section 57(i) of ITA 1961) allow a deduction of a reasonable sum paid as commission or remuneration to a banker or any other person for the purpose of realizing such dividend. Further, section 93(2) (proviso to section 57 of ITA 1961) provides for limiting the deduction of expenses in respect of dividend income or income from units of mutual funds or income from units of specified company only to interest expense, with a monetary limit of 20% of such income for a given year.

The Bill now proposes to remove the deduction of any expense incurred in respect to dividend income or income from units of mutual funds. Consequently, no deduction will be allowed in respect of any expenditure incurred in relation to dividend income or income from mutual fund units.

Under ITA 1961, while there was a proviso similar to section 93(2), there was an anomaly as regards allowability of any reasonable sum paid by way of commission or remuneration to a banker or any other person for the purpose of realizing such dividend, considering that the language of the proviso suggested non-allowability of any expenditure other than the capped interest expenditure. One of the possible views was that no expenditure was allowed against dividend income irrespective of what was provided for in section 57(i), however such a reading would render the specific provision of section 57(i) otiose.

The Bill proposes to delete reference to dividends from section 93(1)(a) and accordingly, going forward, no allowance is permitted for any sum paid by way of commission or remuneration to a banker or any other person for the purpose of realizing dividend. The Bill further proposes to disallow any expenditure in respect of dividend income or income from units of a Mutual fund (allowed hitherto) by amending section 93(2) of ITA 2025. In order to avoid any ambiguity, the Bill proposes use of the term 'irrespective' in section 93(2) to explicitly provide for no deduction of any expenditure.

Accordingly, henceforth, no expenditure would be allowed against dividend income or income from units of Mutual Funds, as tax deductible while computing income under the head 'Income from Other Sources'.

However, the following issues / questions still remain open or worth evaluating, considering past jurisprudence :

- Possibility of offering dividend income under the head 'Profits and Gains from Business or Profession'?
- Possibility of claiming interest expenses under the head 'Profits and Gains from Business or Profession' even though Dividends are offered to tax under 'Income from Other Sources'?
- Set off of brought forward business loss against dividend income?

One may have to read carefully before experimenting or evaluating any of the aforementioned possibilities and should take a position that is sustainable in the long run and stands the test of time. In this regard, it is also interesting to note that Memorandum to Bill states that Dividend income constitutes passive income taxable under the head 'Income from Other Sources', and one should factor the implications of this statement before exploring alternative propositions.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Shipping business - Simplification of Tonnage Tax

The Bill has proposed to rationalize the tonnage tax scheme and proposes the following important amendments in section 227, 228, 232, & 235 of ITA 2025 (Section 115VE- 115VX of ITA 1961) as under:

- Section 227 of ITA 2025 deals with computation of tonnage income. As per Section 227(4), the tonnage shall mean the tonnage of the ship or the inland vessel as per the 'valid certificate' as against erstwhile 'certificate' mentioned. The replacement of 'certificate' with 'valid certificate' is intended to bring more clarity by defining the same as under:
  i. In case of ships registered in India- Having a length of less than twenty-four metres, a certificate issued under the Merchant Shipping Rules 1987 associated with the Merchant Shipping Act, 1958. Having a length of twenty-four metres or more, an international tonnage certificate issued under Tonnage Measurement of Ships, 1969 as specified in the Merchant Shipping Rules, 1987.
  ii. In case of ships registered outside India- licence issued by the Director-General of Shipping under Merchant Shipping Act, 1958 specifying the net tonnage based on Tonnage Certificate issued. Alternatively, any other evidence acceptable to the Director-General of Shipping produced by the ship owner while seeking permission for chartering the ship
- Section 227(9)(b)(iii) dealing in inland vessel registered in India. It has now been proposed to replace 'certificate' with 'certificate of registration' issued under the Inland Vessels Act, 2021 which specifies the net tonnage of the vessel as no separate tonnage certificate is issued under Inland Vessels Act, 2021 to get the benefit of tonnage tax scheme.
- Section 228 of ITA 2025 deals with relevant shipping income and exclusion from book profit. Presently, the sub-section (3)(b)(ii)(A) of the relevant section specifies on-board or on-shore activities of passenger ships in the core income generating activities of a tonnage company. It has been suggested to include inland vessels also within its ambit.
- Section 232 deals with eligibility requirements for applicability of tonnage tax scheme. Presently, the relevant sub-section (12) of the said section specifies that a tonnage tax company should observe the minimum training requirement as per the guidelines issued by the Director-General of Shipping and as notified by the Central Government in case of the trainee officers. It has now been suggested to include guidelines for inland vessels as issued by Inland Waterways Authority of India and notified by the Central Government.
- Sub-section (17) of section 232 provides that the average of the net tonnage shall be computed in the manner prescribed, in consultation with the Director-General of Shipping. It is proposed to include the reference to the Inland Waterways Authority of India in case of inland vessels.

[4] *Western States Trading Co P Ltd vs CIT [1971] 80 ITR 21 (SC), Plaza Investments Pvt Ltd vs ITO [2007] 108 ITO 239 (Mum ITAT), Add. CIT vs Laxmi Agent Pvt Ltd [1980] 125 ITR 227 (Guj)*

- Section 235 deals with interpretation related to shipping income. It has been proposed to introduce a new sub-clause (fa) to provide 'Inland Waterways Authority of India' in case of inland vessels.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Benefit of amortization of expenditure for prospecting of minerals extended

Section 51 of the ITA 2025 (35E of ITA 1961) governs the deduction of expenses incurred by Assessee engaged in the prospecting, extraction, or production of minerals. Under the said provision, such deductions are allowable on a deferred basis. Part A of Schedule XII of ITA 2025 specifies the categories of minerals for which these expenses may be claimed.

To further encourage the prospecting and exploration of critical minerals, it has been proposed to expand the list of eligible minerals under Schedule XII by incorporating another nine critical minerals within such list. This amendment aims to ensure that expenditure incurred on the prospecting and exploration of critical minerals will also qualify for deduction u/s 51 of ITA 2025.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Deduction in relation to non-life insurance business

Paragraph 4 pertaining to Part B- Schedule XIV of the ITA 2025 deals with computation of profits and gains from insurance business other than life insurance. Currently, Paragraph 4(1)(a) of Schedule XIV states that in the computation of profits and gains of such business, any expenditure, allowance, etc. which is inadmissible as deduction as per Section 28 to 54 shall be added back to the profits and gains.

Section 35(b)(I) and 35(b)(ii) of ITA 2025 provides for disallowance of 30%/100% of expenditure on account of non-deductibility of payments made to resident/non-resident on which either tax has not been deducted or tax not deposited within the due date of filing the return of income. Considering Paragraph 4(1)(a) of Schedule XIV, such disallowance is required to be made while computing taxable income. However, there is no specific provision under Schedule XIV which permit to claim such deduction of such expenditures in the year of compliance with TDS provision.

Therefore, to remove the ambiguity of such deduction in the year of compliance with TDS provision, it has been proposed to amend Paragraph 4 of Schedule XIV to provide the claim of deduction of such expenses in the year of compliance with TDS provision as per section 35(b) of ITA 2025.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

India–UNICEF Partnership

Collaborative framework between the Government of India and UNICEF addressing children's welfare through comprehensive programs in education access, healthcare delivery, nutritional security, and child protection, implementing evidence-based interventions to improve outcomes for vulnerable children, strengthen public systems, and advance India's commitments toward achieving sustainable development goals for child wellbeing.

Capital Gains

Tax on Buy-back - Homecoming

Buy-back regime revamped

Taxation of income from buy-back has again undergone a dramatic shift in less than one and a half years, largely to overcome the complicated dividend-based tax system announced in mid-2024. It is now proposed that the buy-back income would be taxed in hands of shareholders as 'capital gains' and not 'dividend'. While the proposed changes seem attractive due to low tax impact on capital gains when compared to dividend, the benefit of such lower tax rate is restricted only to non-promoter shareholders. The promoter shareholders would continue to attract higher tax rates.

Changes in buy-back tax so far

How it started?

Specific provisions for buy-back tax were first introduced through Section 46A of ITA 1961 inserted with effect from April 01, 2000 where buy-back of shares and securities was made taxable as 'capital gains'.

Buy-back Tax regime (till September 30, 2024)

By way of section 115QA and 10(34A) introduced in ITA 1961, buy-back of shares on or after June 01, 2013 was made exempted in hands of shareholders, and tax was supposed to be paid by companies announcing buy-back. Further, effective tax rate of 18.89% (irrespective of residential status of shareholder) was levied with specific rules providing mechanism to derive cost base for deduction from consideration paid on buy-back. The regime was introduced to bring parity in taxation of buy-back with dividends.

Taxability as dividends (applicable from October 01, 2024)

However, tax regime for dividends underwent a major overhaul whereby taxation of dividends was shifted back to shareholders instead of company distributing such dividends. Again, to bring parity in taxation with dividends, buy-back taxation underwent a major change in October 2024.

Erstwhile buy-back tax mechanism was abolished from October 01, 2024 and a new regime was introduced where receipt from buy-back of shares was made taxable in hands of shareholders in form of 'dividend' through section 2(22)(f) of ITA 1961, where such income was taxed at the tax rate applicable depending on residential status and category of the shareholder. Under such regime, cost of acquisition of such shares is considered as capital loss u/s. 46A. These changes were welcomed as far as availability of treaty benefits in form of lower tax or foreign tax credit for non-resident shareholders, and benefit of pass-through corporate dividends u/s. 80M of ITA 1961 were concerned. However, such changes were not appreciated due to the extended complexities involved in computation mechanism as well as higher tax rates being involved.

Now, back to capital gains tax (from April 01, 2026)

Section 2(40)(f) of ITA 2025 covering taxation of buy-back income as dividend is proposed to be removed. Now, buy-back income would be taxed as 'capital gains' governed by section 69 of ITA 2025, which is circling back to the similar position as prevailing prior to June 2013.

Applicable tax rates

In case of all shareholders (whether promoters or not), applicable tax rate on capital gains is governed by 196 to 198 of ITA 2025. In addition to such tax on capital gains, promoters shall be required to pay additional tax (herein after referred to as 'Buyback Tax' or 'BBT') as proposed in section 69(2)(b) of ITA 2025.

Effective tax incidence applicable to different category of shareholders would vary based on nature of income, viz. long-term capital gains ('LTCG') or short-term capital gains ('STCG') as well as category of shareholder, viz promoter or non-promoter. Basic BBT rates are as under:

Nature of capital gains	Promoter		Non-promoter
	Domestic companies	Other than domestic companies	
LTCG	22% (12.5% + 9.5%)	30% (12.5% + 17.5%)	12.5%
STCG (STT paid)[5]	22% (20% + 2%)	30% (20% + 10%)	20%
STCG (others)	22%	30%[6]	30%[7]

Further, following table depicts effective tax incidence for different category of shareholders in different scenarios of buy-back[8] .

Nature of capital gains	Promoter			Non-Promoter		
	Domestic companies	Foreign companies	Individuals	Domestic companies	Foreign companies	Individuals
LTCG	25.17%	32.76%	35.88%	14.30%	13.65%	14.95%
STCG (STT paid)[9]	25.17%	32.76%	35.88%	22.88%	21.84%	23.92%
STCG (others)	25.17%	38.22%	39.00%[10]	25.17%	38.22%	39.00%[11]

The underlying rationale given is that promoters would be able to significantly influence company's choice of distributing profits through dividend or buy-back and therefore differential treatment in taxation thereof is prone to mis-use. Accordingly, the amendment effectively provides concessional tax treatment of buy-back as capital gains to non-promoter shareholders but promoters would continue to pay higher tax.

Promoters are to be determined as under:

- *In case of listed shares,* any promoter or member of promoter group as defined under regulation 2(oo) and 2(pp) of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- *In other cases,* promoters to cover (i) any person who directly or indirectly holds more than 10% of shareholding in the company or (ii) any person who has control over affairs of company or in accordance with whose advice, directions or instructions, board of directors is accustomed to act (section 2(69) of Companies Act, 2013). The intention seems to cover such person who has effective control over company and can direct buy-back of shares. Further, while determining status of person basis shareholding, it appears that both equity and preference shareholding to be considered.

[5] Listed equity shares, units of equity oriented mutual fund and units of business trust

[6] Assumed maximum tax liability as per slab rates as applicable to individuals

[7] Assumed maximum tax liability as per slab rates as applicable to individuals

[8] ETR in case of domestic companies is computed considering concessional tax regime (22%). Further, in all category of shareholders, we have considered maximum surcharge as applicable.

[9] Listed equity shares, units of equity oriented mutual fund and units of business trust

[10] Provided such individual has tax liability tax under New Tax Regime

[11] Provided such individual has tax liability tax under New Tax Regime

Anomaly for charge of levy of additional tax, surcharge for promoters

Section 69 of ITA 2025 has proposed additional BBT to be paid by promoters at specified rates. However, Section 69 does not create separate charge for such additional BBT. All other provisions where ITA 2025 provides for specific rate, charge for those taxes is generally created through Finance Bill every year. This year also, Clause 3(3) of the Bill creates charge in respect of number of such income which is taxable at special rates. However, said Clause 3(3) does not cover Section 69 of ITA and therefore effectively it leads to situation where the law provides for payment of tax without providing charging mechanism for the same. This appears to be anomaly which is expected to be resolved before the Bill is passed by Parliament.

The Bill provides for surcharge in Clause 3(1) read with Paragraph F of Part I-B of First Schedule. Such provision refers to levy of surcharge on income-tax computed in accordance with ITA, however, such levy does not cover tax payable u/s. 69. This would even raise a similar question on applicability of surcharge on additional income-tax payable u/s. 69.

Whether 'deemed dividend' to prevail

Section 2(40)(a) or 2(40)(d) of ITA 2025 provides for a deeming fiction to tax distribution of accumulated profits as 'dividend'. Where taxation for buy-back of shares is explicitly introduced in section 69 of ITA 2025, in our view, parallel application of section 2(40)(a) or 2(40)(d) of ITA 2025 would not prevail[12]. Earlier, courts made a similar prima facie observation[13] that when any buy-back of shares made otherwise than section 68 of Companies Act 2013 ('CA 2013'), say through a scheme of arrangement u/s. 230 to 232 of CA 2013, it may fall within the ambit of 'deemed dividend'. However, the same was relevant when 115QA of ITA 1961 contained specific references to section 77A of Companies Act, 1956 (specific provision for buy-back in erstwhile Company Law). In present scenario, section 69 of ITA 2025 does not cover reference to any specific provisions of CA 2013. Hence, buy-back carried out under any provisions of CA 2013 would be taxed as 'capital gains' u/s. 69 of ITA 2025, and there will be no application of 'deemed dividend' provisions.

In consequence of change in regime of taxation of buy-back, following allied implications should also be noted –

Pass through status for corporate dividends would not be available

With dividend-based taxation in buy-back of shares, effective tax was levied in hands of ultimate shareholders thereby eliminating double taxation in case of corporate shareholders by virtue of section 148 of ITA 2025. However, with the newly proposed tax mechanism, it will lose the pass-through status as no such mechanism prevails in case of capital gains, and hence, there may be potential double tax, first in hands of shareholders on buy-back, and second, when such shareholder further distributes the buy-back consideration.

Relief under tax treaty

Non-resident shareholders would continue to avail relief under applicable tax treaty for lower tax rates as well as foreign tax credit in similar way as available in dividend-based tax regime. However, it would be interesting to see how different treaties would treat income arising on account of buy-back, whether dividend or capital gains. This is on account of fact that different treaties define dividend in different manner and a few may include distribution in form of buy-back while few others would not. Benefits available under treaty in case of dividend and capital gains would be significantly different and hence it would be important to analyze treaty for each non-resident investor.

[12] *Goldman Sachs (India) Securities (P.) Ltd [2016] 70 taxmann.com 46 (Mumbai)*

[13] *Cognizant Technology Solutions India (P.) Ltd. [2019] 106 taxmann.com 388 (Madras) [Affirmed by Apex Court in [2020] 115 taxmann.com 84 (SC)]; Updater Services Ltd. [2025] 180 taxmann.com 875 (Chennai - Trib.)*

Anti-abuse provisions

Section 79 of ITA 2025 which provides for charging capital gains basis fair valuation of shares will now be applicable in case of buy-back of shares, if the transaction is undervalued. Such provision was not applicable in dividend-based tax regime as consideration was effectively Nil. Further, applicability of deemed gifting provisions u/s. 92(2)(m) of ITA 2025 would not be applicable as held in various judicial rulings .

Deduction against buy-back income

Shareholders would be eligible to claim deduction on investment in residential house property against buy-back income as per section 86 of ITA 2025, subject to compliance with applicable conditions. Such deduction was not eligible in existing dividend-based buy-back tax regime. No other expenses or deductions except above would be eligible against buy-back gains in proposed amendment.

Withholding tax

There will be no withholding tax implications in case of buy-back of shares when shareholder is a resident, but the company will have to comply with withholding tax obligations in case of non-resident shareholders as per section 393 of ITA 2025 along with available relief under tax treaty, if any.

Changes in taxation of income arising on account of buy-back of shares is summarized hereunder:

Particulars	Erstwhile regime (115QA of ITA 1961)	Existing regime (Dividend-based taxation)	Proposed regime
Effective date	Up to September 30, 2024	October 01, 2024 to March 31, 2026	April 01, 2026 onwards
Nature of income	Distributed income	Dividend	Capital gains
Tax rate	Effective tax rate of 18.89%	Residents: Slab rates Non- residents: 20% (plus surcharge and cess)	Non-promoter: 12.5% to Slab rates Promoter: 22% to Slab rates Tax rates vary basis nature of gain and category of shareholder
Tax to be paid by	Company	Shareholder	Shareholder
Tax treaty benefits	While litigative, generally not allowed	Can be availed for lower tax rate or foreign tax credit	Can be availed for lower tax rate or foreign tax credit
Anti-abuse provisions	Not applicable	Not applicable	Provisions for deeming fair value will be applicable in case of undervalued transactions
Available deduction	Cost base (to be determined as per applicable rules)	Not allowed. Acquisition cost to be allowed as capital loss.	Acquisition cost to be allowed as deduction. Further, investment-based deduction can be claimed, if eligible.
Withholding tax obligation	Not applicable	Applicable for all shareholders	Applicable in case of non-resident shareholders

[14] *Lupin Investments (P.) Ltd. [2025] 177 taxmann.com 80 (Mumbai - Trib.); Venture Lighting India Ltd. [2023] 150 taxmann.com 523 (Chennai - Trib.); Globe Capital Market Ltd. [2023] 156 taxmann.com 620 (Delhi - Trib.); VITP (P.) Ltd. [2022] 143 taxmann.com 304 (Hyderabad - Trib.); Vora Financial Services (P.) Ltd. [2018] 96 taxmann.com 88 (Mumbai - Trib.)*

Sale of Sovereign Gold Bonds – Exemption curtailed

Sovereign Gold Bonds ('SGB') have been issued by the Reserve Bank of India through multiple series notified from time to time, each constituting a separate issuance. Currently, the redemption by the individual of SGB issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015 is not regarded as transfer as per section 70(1)(x) of ITA 2025 [47(viic) of ITA 1961] and therefore, there is no capital gain tax. Such exemption is granted irrespective of whether the purchase of the bond was done from the initial offering or from the secondary market.

The Bill, with effect from April 01, 2026, proposes to restrict the above benefit of exemption to only those SGB which has been purchased at the time of initial offering and held till its maturity.

In view of the same, any income arising at the time of redemption of SGB at its maturity or before its maturity (if redeemed earlier) become taxable if it is purchased by a taxpayer from secondary market. Further, with respect to SGB acquired by a taxpayer at the time of initial offering and if it is redeemed before its maturity date, the gain arising therefrom also becomes taxable.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Considering the same, if any individual who has purchased such bond either at the time of initial offering or in secondary market earlier and if he can get it redeemed before March 31, 2026 if terms so provide, the gain arising from such redemption is not taxable.

Compulsory acquisition of the land under RFCTLARR Act – Exemption clarified

Section 11 of ITA 2025 read with Schedule III [10(37) of ITA 1961] provides an exemption for capital gains arising to an individual/HUF on compulsory acquisition of agricultural land situated in specified urban area subject to fulfilment of certain conditions.

Section 96 of the Right to Fair Compensation and Transparency in Land Acquisition Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act) provides for exemption from income tax on any award or agreement for compulsory acquisition of land. This specific exemption from income tax was not included in the income tax provisions. In order to alleviate the sufferings of taxpayers, and to bring in alignment with the abovementioned Act, CBDT vide its circular no.36/2016 has specifically clarified that compensation received on account of award or agreement should be exempted from the imposition of income-tax even though there is no specific provisions for exemption in the ITA 1961.

In order to incorporate the benefit provided by CBDT read with section 96 of RFCTLARR Act, it has now been specifically provided that such amount received under RFCTLARR Act (except amount received u/s 46 of such Act) is exempt from tax.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

STT on futures and options

STT rates were increased in earlier Budget with effect from October 01, 2024 for derivative transactions, which are now further proposed to be enhanced from April 01, 2026 considering substantial volume of derivative transactions entered, as under:

Nature of transaction	Existing rate	Proposed rate
Sale of an option in securities	0.10%	0.15%
Sale of an option in securities, where option is exercised	0.125%	0.15%
Sale of a future in securities	0.02%	0.05%

Building Successful Partnerships

INDIA BUDGET 2026

MIT-IIT Research Collaborations

Academic partnership between the Massachusetts Institute of Technology and Indian Institutes of Technology fostering joint research initiatives across cutting-edge fields including biotechnology, artificial intelligence, robotics, materials science, and space technology, advancing global innovation through knowledge exchange and collaborative scientific endeavors.

Non-Resident Taxation

As a part of strategic move to make India as a global hub for data centres, high-end and technologically advanced manufacturing, innovation and attracting movement of technical experts to India and innovation, the Hon'ble Finance Minister has proposed significant tax incentives for non-resident individuals in respect of income accruing or arising outside India for rendering services in India, non-residents supplying capital goods, equipment and tooling to manufacture electronic goods in India and non-residents procuring services of Indian data centres.

Supplies for electronics contract manufacturing incentivized

With a view to encourage non-resident engaged in providing services or technology for setting up an electronic manufacturing facility in India specifically semiconductors and display systems, the Finance Act 2025 had introduced presumptive taxation wherein the profit of an eligible non-resident have been deemed to be 25% of the receipts, for its chargeability as business income.

To continue its push to develop an overall ecosystem for electronics manufacturing in India, the Bill now proposes an exemption of income of a foreign company from providing capital goods, equipment and tooling to contract manufacturers for use in electronic manufacturing in India, located in a custom bonded area. This exemption is available up to tax year 2030-31 upon fulfilment of following conditions:

- ownership of such capital goods, equipment or tooling remains with the foreign company;
- such capital goods, equipment or tooling is under the control and direction of the contract manufacturer;
- the contract manufacturer is located in a custom bonded area, that is, a warehouse referred to in section 65 of the Customs Act, 1962 (52 of 1962); and
- the contract manufacturer produces electronic goods on behalf of the foreign company for a consideration

The proposed provision shall provide incentive to foreign companies and provide hassle free flow of capital goods for Indian contract manufacturers, thereby giving a fillip Electronic Manufacturing Services (EMS) in India. This move seems to have been made in order to attract technology partners from various countries such as Taiwan, Japan and South Korea, who would help Indian companies set up an ecosystem for electronic manufacturing facilities.

While the proposed amendment surely tries to boost electronic manufacturing system, it brings to the surface some very interesting nuances surrounding a contract manufacturing arrangements, some of which are illustrated below:

- What could be the income of the foreign company from supply of capital goods, equipment or tooling, if the section presupposes no transfer of ownership in the same from the foreign company to the Indian contract manufacturers?
- Does the amendment imply that in all similar contract manufacturing arrangements, the foreign company was always expected to charge rent (by whatever name called) towards such supplies, which now becomes exempt?
- Now that any (potential) income is exempt, would it be ok for the foreign company not to charge rent?
- If answer to (iii) is in affirmative, would the Indian contract manufacturer now not be expected to earn a mark-up on its cost pertaining to rent?
- Does the amendment in any way provide a relief to the foreign company from potential business connection/permanent establishment risk in India on account of capital goods, equipment lying in India, especially factoring the condition of such assets having to remain under the control and direction of the Indian contract manufacturer? Does this condition automatically act as a safeguard against any potential risk?

It appears that the answers to all the questions are in favour of foreign companies, and it seems to be a conscious decision of the Government of India to let go of a potential tax revenue, which may be miniscule in the overall scheme of things, looking at the potential benefits for the economy on account of providing relief and tax certainty.

We would like to highlight that in the Budget Speech, Hon'ble Finance Minister had made a reference to providing relief to non-residents, in order to boost "toll" manufacturing in India. Technically speaking, there may be a huge difference between how a toll manufacturer operates vis-à-vis how a contract manufacturer operates. However, neither the Memorandum nor the proposed amendment anywhere refers to a "toll" manufacturing arrangement. What is more interesting is that the proposed amendment requires the equipment, capital goods or tooling to be owned by the foreign company which could be differentiating attribute commonly present in a "tolling" arrangement. EMS players in India operate under both the models and therefore, it would have been better if the provisions were clearer.

While this proposed amendment is a step towards providing of tax incentive to foreign company, the real impact will depend on how the tax authorities considers the corresponding impact in the hands of Indian Contract Manufacturer. Also, currently, the incentive is provided only for a period of five years. The EMS industry is highly capital and technology intensive and hence, five years may be too short a timeframe to provide certainty.

Irrespective of the minor creases, on an overall basis, this amendment will surely play a role to boost the electronics manufacturing ecosystem. It is also worth noting that non-residents engaged in providing services for setting up electronics manufacturing facilities are now exempted from MAT. Detailed discussion on this is provided in the section pertaining to MAT.

At the time of introduction of ITA 2025, representations were made to rationalize the language used in section 61 so as to avoid any possible duplication on account of the existing language which results in counting of the same income twice. It was expected that this amendment would be carried out in the Bill. However, no such amendment has been made, which comes as a surprise. The intent of ITA 2025 is to simplify the language and correct any anomalies arising on account of errors in drafting. It is expected that the Government will make necessary amendment in this regard.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Incentives on utilizing services from Indian data centres

Recently, Google announced approximately $15 Billion over next five years to establish a major artificial intelligence hub and data centre infrastructure in Andhra Pradesh. Further, with a view to encourage further investment in digital infrastructure in India, the Finance Minister introduced tax incentives for data centre ecosystem.

The Bill proposes to provide exemption to foreign companies on income accruing or arising in India from procuring Data Centre services from a specified Data Centre upto tax year ending on March 31, 2047, with a condition that services to Indian users shall be provided by such foreign companies through a reseller entity being an Indian company.

The proposed provision effectively insulates the foreign companies (digital infrastructure providers) from tax liability in India on their global income accruing or arising through usage of data centres in India upon fulfilment of following conditions:

- Such foreign company is notified by the Central Government in this behalf
- Such foreign company does not own or operate any of the physical infrastructure or any resources of the specified data centre

- All sales by such foreign company to users located in India are made through a reseller entity being an Indian company
- Such foreign company maintains and furnishes such information in such form and manner, as may be prescribed

Certain terms have been specifically defined to avoid any confusion:

- "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 the services provided by a data centre through the use of physical infrastructure including land, buildings, mechanical electrical power equipment, 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 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
  - ➢ owned and operated by an Indian company.

The following points are worth noting:

Significant Economic Presence

Explanation 2A to section 9(1)(I) provides that Significant Economic Presence ("SEP") shall constitute Business Connection in India. It further provides for significant economic presence to mean, transaction in respect of any goods, services or property carried out by a non-resident with any person in India which includes the provision of download of data or software in India, if aggregate payments arising from such transaction during the previous year exceeds INR 2 Crore or systematic soliciting of business or engaging with 3 lakhs or more users in India. The foreign company setting up digital infrastructure in India to provide services globally and to Indian customers could possibly trigger SEP. The proposed amendment possibly provides relief to the foreign company in this regard especially by requiring that sales to Indian customers are routed through an Indian reseller entity. This effectively ensures that India gets its fair share of tax from Indian reseller entity and at the same time provides tax certainty and benefits to the foreign company.

Context of Permanent Establishment under DTAA

As per Article -5 of DTAA, Permanent Establishment includes "fixed place of business". If a foreign company owns, leases or otherwise has the server at its disposal in India and uses it to serve its customers, it may pose a risk of constituting a PE. Since the Bill provides the exemption to foreign company with an explicit condition that the foreign company should not own or operate physical infrastructure, it effectively strengthens the argument that the foreign company does not have a PE in India.

It is important to note that the while the Bill proposes the exemption for income in the hands of foreign company, the income of the specified Data Centre will be considered as taxable in India and the Bill also provides the safe harbour margin for the purpose of remuneration at ALP. However, the Bill does not provide any safe harbour rule for Indian reseller entity.

Considering that the incentive is provided till 2047, it brings in a long-term certainty for foreign players clearly giving a sign for making investments in the data centre space.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Tax Incentives on global income of non-resident visiting India

With a view to attract global talent (especially considering simultaneous proposals for electronics, semiconductors, data centres, etc.) and to provide tax certainty to non-resident individuals visiting India for the first time to render certain services in India in connection with any scheme notified by the Government, the Bill proposes to provide exemption to such individuals in respect of income accruing or arising outside India (not deemed to accrue or arise in India) for a period of five consecutive tax years commencing from the first tax year during which he visits in India in connection with such scheme.

Under the existing provisions, the scope of taxability of an individual depends the residential status which is based on the physical presence in India as per section 6 of ITA 2025. Accordingly, as per scope of total income, the non-resident individuals are taxed only on Indian source income, whereas the resident and ordinarily resident are taxed on their Indian as well as global income.

This amendment ensures that such non-residents are only taxed on their income earned from services rendered in India even after such individuals become residents (more specifically ordinarily resident).

It is imperative to note that even if the income of such non-resident individual from income accrues or arises outside India is exempt, the change of Residential Status based on his presence in India may trigger various reporting requirements including disclosure of Foreign Assets in the Income Tax Return.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Building Successful Partnerships | INDIA BUDGET 2026

Jio-BlackRock Partnership

Strategic joint venture between Reliance Jio Financial Services and global investment giant BlackRock to establish a comprehensive asset management platform in India, combining Jio's extensive digital ecosystem and customer reach with BlackRock's investment expertise to democratize wealth management and expand financial services access across Indian markets.

Transfer Pricing

Transfer Pricing, as a specific anti-avoidance regime, witnesses limited intervention through the Annual Budget, with changes usually confined to procedural adjustments. This Bill, however, marks a notable departure from this trend.

The increasing policy focus on semiconductors, Global Capability Centers (GCCs), cloud and data-centre-based processing, and electronic manufacturing service providers has resulted in substantive updates to areas that had long remained unchanged. In particular, the safe harbour framework and the Advanced Pricing Arrangement (APA) regime have been revisited after a long period of inaction.

Alongside the substantive changes, the Bill also introduces certain procedural amendments aimed at attaining finality, particularly in relation to timelines for dispute resolution. These amendments have been enacted retrospectively and are in favour of the Revenue, with the effect of rendering several High Court decisions favorable to taxpayers ineffective. That said, the amendments do provide clarity on the law going forward. While this clarity is aligned with the position of the tax authorities, and not necessarily beneficial to taxpayers given the retrospective application, it nevertheless settles an area that had seen prolonged litigation.

Safe Harbour Regulations – Now truly safe!

Background

Safe harbour rules are intended to reduce transfer pricing friction by prescribing conditions under which the tax administration accepts the transfer price / margin declared by the taxpayer, thereby lowering audit intensity and litigation risk. In India, the safe harbour framework is anchored in section 167 of ITA 2025, which enables prescription of safe harbour rules for specified international transactions.

While the framework has existed since 2009, practical application by taxpayers has been constrained since a decade. A key reason has been the relatively high prescribed operating profit margins under the notified safe harbour regime (ranging from 17% to 24%), which in many cases were not commercially aligned with the functional profiles of and value added by Indian taxpayers. In recent years, there has been a lot of discussion and debate around taxpayers' expectations to rationalize the safe harbour provisions to make them more "business-usable" for mainstream captive services.

Separately, the broader policy context has shifted. India's positioning as a preferred destination for Global Capability Centers (GCCs) and high-value, scale-driven services (including software, digital operations, and technology-enabled processing) has increased the importance of tax certainty to support investment decisions and reduce long-cycle disputes. In that context, the Bill proposes a meaningful recalibration of safe harbour for targeted sectors.

Recommendations of the Select Committee Report

In the Select Committee Report of the Income Tax Bill, 2025, there were a few recommendations provided from the perspective of enhancing and rationalising the transfer pricing framework. Extensive focus was given on rationalising the Safe Harbour Regulations with few recommendations as under -

- Removal of extensive paperwork or audit requirements while applying for safe harbour option.
- Reduction in the safe harbour margins of software development & information technology enabled services to 14%, knowledge process outsourcing to 19%/20% and contract R&D for software development to 17%/18%.
- Increase in the revenue threshold for applicability of Safe Harbour Regulations in software development, information technology enabled services, knowledge process outsourcing and contract R&D for software development to Rs. 300 crores and Rs. 500 crores.
- Revamp in definition of software development and contract R&D for software development

such that only very specific high-end activities should get covered under the definition of contract R&D in software development

- Safe harbour rates should be closer to comparable benchmarks in the industry. This can serve dual purpose of providing tax certainty to taxpayers and easing the burden of the APA
- Inclusion of Contract manufacturing activities in the safe harbour regime at 5% to 7%.
- Safe harbour should be applicable to all GCCs irrespective of revenue threshold since there is no linkage to turnover and the functional profiles of GCCs or at least the revenue threshold should be Rs. 500 crores to cover MSMEs.

While the above recommendations as provided by the stakeholders were not adopted by the Select Committee considering them as policy changes (intention of new act being only simplification of language), they were given due consideration as is evident from the current updates. In that context, the Bill proposes a meaningful recalibration of safe harbour for these targeted sectors.

Proposed changes to expected margins under Safe Harbour

- Single "Information Technology Services" category and lower uniform margin - The Bill proposes that software development services, IT-enabled services, KPO services, and contract R&D services relating to software development be clubbed under one single category of "Information Technology Services", with a common safe harbour margin of 15.5% applicable to all. A comparative reduction across these existing categories is as under –
- A uniform 15.5% margin coupled with category consolidation should reduce classification disputes (software vs ITeS vs KPO, etc.) and improve the practical feasibility of opting for safe harbour, particularly for captive and routine service models.
- Expansion of the turnover threshold - For IT services, the threshold for availing safe harbour is proposed to be enhanced from INR 300 crores to INR 2,000 crores. This is a material expansion in coverage and signals intent to make the safe harbour regime relevant for bigger operating entities, including scaled GCC/service centres.
- Automated, rule-driven approval process and 5-year certainty - A further structural change is that safe harbour for IT services is proposed to be processed through an automated rule-driven process, without the need for a tax officer to examine and accept the application. Once applied, the taxpayer can continue the same safe harbour for a continuous block of 5 years at its option. This is intended to reduce both processing friction and discretion risk, and to align the regime with the "certainty" objective that safe harbour is meant to serve.
- New safe harbour for data centres – The budget also proposes a new category of safe harbour, again aimed at benefitting companies providing data centre services from India where the Indian entity is a related party service provider. The safe harbour margin over operating costs is proposed to be prescribed as 15%.
- New safe harbour for bonded warehousing (electronics supply chain) – In addition to the above, safe harbour profit margin of 2% of invoice value for non-residents engaged in

Nature of service	Margin as per existing rules	Margin as proposed under the Bill
Software services	17% / 18%	15.5%▼
IT enables services	17% / 18%	
Knowledge process outsourcing services	24% / 21% / 18%	
Contract R&D services for software development	24%	

- component warehousing in a bonded warehouse is also proposed, to support just-in-time logistics for electronic manufacturing.
- All of the above are sector-specific moves aimed at reducing uncertainty in emerging infrastructure and supply-chain models that are increasingly central to India's GCC, manufacturing and cloud ecosystem.

Proposal to rationalize "accountant" definition for safe harbour purposes

Additionally, the FM indicated in her Budget Speech towards a proposal to rationalize the definition of "accountant" for safe harbour purposes, with the stated policy intent of supporting home-grown accounting and advisory firms. While detailed contours are awaited, this seems to be aimed at providing Indian accounting & advisory firms the permission to vet or certify details pertaining to cost allocations, allocation keys, etc. for AEs of Indian taxpayers in respect of low-value adding services received from such AEs.

Practical takeaways

While implementations will matter, the proposed changes if incorporated seamlessly could provide immense benefit to taxpayers in India. This is especially considering the increasing TP adjustments in case of captive services providers providing "Information Technology Services" from India, where the TPOs consider complex, entrepreneurial entities as comparables leading to an arm's length range of whopping 20-28% margins over operating costs. Having a certainty in this matter would go a long way in easing compliance and procedural burden for taxpayers.

Fast-track APA for IT services

The FM, in her speech, proposed a fast-track approval mechanism for unilateral APAs in respect of Information Technology services, with an approval timeline of two years, extendable by a further six months. This marks a clear departure from the conventional APA timelines, which often extend well beyond three to four years, particularly in complex cases.

Rationale and context

The introduction of a fast-track APA must be read alongside the rationalization of the safe harbour regime, where a 15.5% margin has been prescribed for IT services. Safe harbour, by design, is a certainty tool and is expected to operate at margins that are conservatively acceptable to the tax administration. In contrast, an APA is intended to arrive at a fact-specific arm's length outcome, based on functions, assets, risks, and business context.

The coexistence of a reduced safe harbour margin and a fast-track APA framework implicitly acknowledges that arm's length margins in IT services may, in appropriate cases, be lower than the safe harbour threshold. Accordingly, taxpayers for whom the safe harbour margin is not commercially or economically tenable may now have a viable certainty alternative without committing to a prolonged APA process.

Key benefits of the fast-track APA

- *Significantly reduced time to certainty:* A two-year approval window (with limited extension) materially improves predictability for taxpayers compared to the existing APA regime.
- *Greater flexibility than safe harbour:* Unlike safe harbour, an APA allows for nuanced benchmarking, segmentation, and recognition of business realities that may justify margins below the prescribed safe harbour rate.
- *Reduced litigation risk with tailored outcomes:* The fast-track APA provides upfront certainty on pricing methodology and margins, reducing the risk of future audits and disputes.

Use cases where fast-track APA may be preferable to safe harbour

The fast-track APA framework is particularly relevant for IT service providers with non-standard or mixed operating profiles, including:

- Companies rendering services to both

associated enterprises and non-associated enterprises, where a uniform safe harbour margin may distort overall profitability.

- Groups operating multiple software or technology service centres across jurisdictions, where value is created through coordinated use of specialised skills across countries.
- Entities with evolving service offerings, varied service lines, or differentiated risk profiles that cannot be adequately captured under a one-size-fits-all safe harbour margin.

In such cases, the APA route allows alignment of transfer pricing outcomes with commercial and operational realities, while still delivering certainty within a compressed timeframe.

Option of modified return extended to AE of the taxpayer entering into the APA

Background

APAs were introduced as a measure to provide certainty and finality on intragroup transactions entered into between associated enterprises (AEs). APAs are intensely discussed and negotiated between the parties to the agreement, meaning that the arm's length price is agreed between taxpayer and tax authority after due deliberations.

Further, best practices world over acknowledge that arm's length price ('ALP') is qua transaction i.e., the ALP of a controlled transaction does not change its value in the hands of the taxpayers in the same or different jurisdictions. Evaluating this in context of the APA, where the tax authority goes so far as agreeing the arm's length price in a written agreement, it is imperative that such agreed arm's length price is applied for both the taxpayer and the AE(s) to the transaction.

The current provisions contained in ITA 2025 permits for the Indian taxpayer to modify its return of income post conclusion of APA, should its taxable income undergo a change for the year covered within APA that has already concluded. However, a corresponding modification is not currently permissible for AE of the Indian taxpayer for modifying return of income pertaining to its income taxable in India.

Proposed Amendment

The FM has proposed that the non-resident associated enterprise of the Indian taxpayer would also be able to exercise the option of furnishing a modified return in respect years covered within the APA for which either tax has already been paid by it (either by way of payment / withholding) and claiming a refund for such excess tax paid, if any. This effectively addresses the double taxation arising due to inability to modify its taxable income in India.

The proposed amendment does raise a question as to whether amendment should also be made to allow modification in cases where assessment or litigation in case of the Indian taxpayer has been concluded and expense deductible by the Indian taxpayer is adjusted downwards. This also leads to double taxation in hands of the foreign AE where its income is chargeable to tax in India, and currently MAP proceeding is the only option to limit such double taxation.

These proposed changes will apply for advance pricing agreements entered into on or after April 01, 2026.

Finality on long standing dispute – Procedural timelines

In recent years, transfer pricing litigation in India was increasingly fixated on procedural timelines, particularly in relation to (i) the time limit for passing orders by the Transfer Pricing Officer (TPO) u/s. 92CA, and (ii) the interaction between Dispute Resolution Panel (DRP) proceedings u/s. 144C and the overall limitation period for completion of assessments. The Bill seeks to address these issues through a set of retrospective clarificatory amendments, with the stated objective of attaining finality and certainty.

Timeline for passing Transfer Pricing Orders u/s. 92CA

A long-standing controversy existed regarding the computation of the statutory time limit for passing a transfer pricing order u/s. 92CA of ITA 1961. This issue was examined in several judicial precedents, most notably in Pfizer Healthcare India Private Limited (Madras High Court), where courts interpreted the limitation period strictly, leading to certain TPO orders being held time-barred by a margin of one day.

To settle this controversy (albeit in favour of the Revenue), the Bill proposes a retrospective clarification (drafted as an insertion), effective from June 1, 2007, prescribing the specific dates by which the TPO must pass the order, linked to the expiry of the limitation period for completion of assessment proceedings.

For assessment years up to AY 2026–27, the clarified position is as follows:

Expiry of period of limitation of Assessment proceedings	Date of passing TP order as per existing judicial precedents	Date of passing TP order as per the Bill
March 31 (Non-leap year)	January 29	January 30
March 31 (Leap year)	January 30	January 31
December 31	October 31	November 1

This clarification departs from certain judicial precedents which had adopted a narrower interpretation in favour of the Assessee, effectively rendering those decisions inoperative.

Consequential amendment to ITA 2025

From AY 2027–28 onwards, u/s. 166 of ITA 2025, a simplified and uniform timeline has been prescribed:

Expiry of period of limitation of Assessment proceedings	Date of passing TP order as per the Bill
March 31 (Both Leap year and Non-leap year)	January 31
December 31	October 31

This forward-looking framework eliminates ambiguity and aligns procedural timelines under the new law.

Timeline for completion of DRP proceedings u/s. 144C

Another significant area of litigation concerned the interaction between the DRP timelines and the overall assessment limitation period. Certain High Courts, including the Madras and Bombay High Courts, had held that the nine-month period prescribed for completion of DRP proceedings u/s. 144C was included within, and not in addition to, the normal limitation period for completing assessments. As a result, a large number of assessments were quashed on the ground that DRP procedures could not be completed within the remaining time available to the Assessing Officer.

These decisions were under challenge before the Supreme Court (where a special bench was requested before the Hon'ble CJI), and it was estimated that an adverse ruling for the Revenue could result in substantial revenue exposure.

The Bill now retrospectively clarifies, with effect from April 01, 2009, that:

The time limit for completion of DRP proceedings is exclusive of, and not subsumed within, the normal assessment limitation period. This amendment effectively nullifies the judicial precedents that had held otherwise and validates past assessments where DRP timelines were treated as running independently.

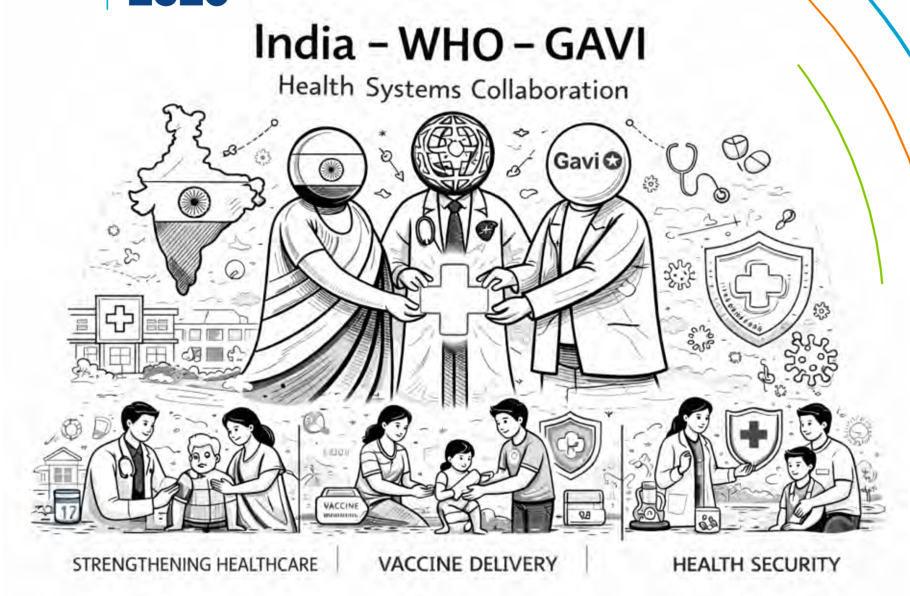
Overall impact

These amendments are procedural in nature and operate retrospectively in favour of the Revenue, thereby rendering several taxpayer-favourable judicial precedents infructuous. While the retrospective application may be viewed as adverse from a taxpayer perspective, the amendments bring long-awaited certainty on limitation mechanics, which had become a recurring source of litigation.

Importantly, limitation and procedural timelines do not form part of the substantive transfer pricing position. From a system design perspective, finality on process—even if unfavourable—provides a more stable foundation than outcomes turning on marginal or technical lapses in statutory deadlines. Going forward, the clarified framework substantially reduces the scope for disputes driven purely by procedural timing issues.

Building Successful Partnerships

INDIA BUDGET 2026



India–WHO–GAVI Health Systems Collaboration

Trilateral partnership between India, the World Health Organization, and Gavi, the Vaccine Alliance, focused on strengthening primary healthcare infrastructure, expanding immunization coverage, ensuring equitable vaccine delivery, enhancing disease surveillance systems, building health workforce capacity, and improving maternal and child health outcomes to advance universal health coverage and pandemic preparedness across India.

IFSC

IFSC Units - Tax holiday period extended

Background

Under the existing provisions of section 147 of ITA 2025, deductions are available in respect of income earned by:

- A scheduled bank or a bank incorporated under the laws of a country outside India having an Offshore Banking Unit ('OBU') in a Special Economic Zone ('SEZ'), which is entitled to claim deduction for ten consecutive tax years beginning from the relevant tax year.
- A unit of an International Financial Services Centre ('IFSC'), which is entitled to claim deduction for ten consecutive tax years out of fifteen years, beginning from the relevant tax year, at the option of the taxpayer.

Additionally, under the existing provisions of section 147 of ITA 2025, where a company is either not claiming deduction under this section or the prescribed time limit for claiming such deduction has lapsed, the income of the aforementioned units shall be taxed at the rates in force applicable to the respective category of companies.

To boost investments and growth in the banking sectors as well as units of IFSC, Finance Minister has proposed following amendments:

Proposed Amendment

By way of substitution of sub section (2) of section 147 of ITA 2025, it is proposed to extend the period of deduction as follows:

- In the case of a scheduled bank or a bank incorporated under the laws of a country outside India having an OBU in a SEZ, the deduction period will be increased from ten consecutive tax years to twenty consecutive tax years.
- In the case of a unit of an IFSC, the deduction period will be extended from ten consecutive tax years out of fifteen years to twenty consecutive tax years out of twenty-five years, at the option of the taxpayer.

Further, to align with other provisions of ITA 2025 where profit linked deductions are disallowed if an entity is formed through restructuring of an existing business, it is proposed to substitute sub-section (5) of section 147 of ITA 2025. Under the amended provision, in respect of a scheduled bank or a bank incorporated under the laws of a country outside India having an OBU in a SEZ, or a unit of an IFSC commencing operations on or after April 1, 2026, the deduction under sub section (1) of section 147 of ITA 2025 shall be available only if such unit is not formed by splitting up, reconstruction, reorganization, or transfer of a business already in existence in India.

To provide the benefit of a concessional tax rate and to further promote the growth of the banking industry as well as units established in the IFSC, the existing section 218 of ITA 2025 is proposed to be substituted as under:

- The business income of a scheduled bank or a bank incorporated under the laws of a country outside India having an OBU in a SEZ, or a unit of an IFSC as referred to in Section 147(3), shall be taxed at a concessional rate of 15%.
- Any other income, not covered u/s 147(3), shall continue to be taxed at the rates in force.

The above tax rates are applicable on the respective income either before the commencement of the tax holiday period or after its cessation.

Impact of Amendment

By extending the tax holiday period from ten years to twenty years, the FM aims to further strengthen and promote the IFSC at GIFT City. Over the next two decades, one of the key focus areas will be the growth and development of the IFSC. In addition to increasing the tenure of the tax holiday, the Finance Minister has sought to draw investor's attention to the IFSC, which effectively offers a 0% tax rate during tax holiday period of twenty years on income earned therein, explained as follows:

- **Entities under the old tax regime** availing the tax holiday will be subject to MAT at 9%
- **Entities opting for the concessional tax regime u/s 200 of ITA 2025** will not be subject to MAT. Consequently, such companies will not be required to pay any tax during the entire 20-year tax holiday period.

Therefore, effectively the company having unit in IFSC who opts for concessional tax regime u/s 200 of the ITA 2025 will be paying 0% tax during the twenty years tax holiday period.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Thus, effective taxation of IFSC Unit / OBUs during tax holiday period and before or after tax holiday period can be summarized as under:

Income from IFSC / OBUs	Normal Tax Rate	MAT Rate
Companies claiming tax holiday - during tax holiday	Nil	9% (only in old regime)
Companies claiming tax holiday – before or after tax holiday	15%*	-

** 15% rate applicable, irrespective of whether company claims concessional tax regime or not*

Exclusion from deemed dividend made stringent

Section 2(40) of ITA 2025 provides for applicability of deemed dividend in certain cases. Sub-clause (v) provides an exception where deemed dividend will not be attracted in case of advance or loan between two group entities if two conditions are satisfied (a) one of the group entity is a 'Finance Company' or 'Finance Unit' set up under IFSC and (b) the parent entity or principal entity of such group is listed on stock exchange in a country or territory outside India.

In order to rationalize the provision, it is proposed that above exception will be applicable when an additional condition i.e. the other group entity is located in a country or territory outside India as notified, is also fulfilled.

Further, the definition of 'group entity' has now been aligned with definition provided under International Financial Services Authority (Payment Services) Regulations, 2024. Further, the definitions for 'parent entity' and 'principal entity' are specifically covered.

Rationalization of definition of Specified Fund

Under the existing provisions of Sl. Nos. 1 to 4 of Schedule VI of ITA 2025, the rules apply to any specified fund, with the term "specified fund" defined in Note 1(g) to the said schedule. In order to provide greater clarity and ensure consistency, it is proposed to amend Note 1(g) so that the definition of "specified fund" is aligned with the definition provided u/s 10(4D) of ITA 1961.

Further, Investment division of an OBU which has been granted a certificate of registration as a Category-I foreign portfolio investor under the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 made under the Securities and Exchange Board of India Act, 1992 (15 of 1992) and which has commenced its operations on or before March 31, 2025 and fulfils such conditions including maintenance of separate accounts for its investment division, as may be prescribed is also treated as specified fund. This type of entities has also been provided relaxation in commencement of business operations on or before March 31, 2030 instead of 2025 by way of amendment in the Bill. This will create additional room for these types of entities to be categorised as specified fund.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

TDS & TCS Provisions

Declaration for non-deduction of tax – Filing with depository

Section 393(6) of ITA 2025 allows certain taxpayers to receive specified income without deduction of tax, subject to submission of a self-declaration to the person responsible for paying the specified income stating that the estimated total income for the relevant FY is not chargeable to tax. Specified income includes dividends, interest from securities and income from units of mutual funds.

Under the existing framework, where an investor earns income from multiple securities or units, separate declarations are required to be furnished to each person responsible for paying such income. It is proposed that, instead of filing declarations to various payers of income, the taxpayer may file such self-declaration with the depository, which shall thereafter forward the same to the respective payers, provided the following conditions are satisfied:

- The securities or units are held with such depository; and
- Such securities are listed on a recognised stock exchange in India.

Such declaration is required to be filed electronically as per the procedure to be prescribed. This amendment is intended to ease compliance and reduce duplication of declarations.

Further, section 393(7) of ITA 2025 requires the person responsible for paying income to deliver one copy of the self-declaration to Commissioner of Income Tax on or before the 7th day of the month following the month in which the declaration is received. It is proposed to extend this time limit from a monthly basis to a quarterly basis, thereby easing compliance for payers.

This amendment is proposed to be effective from April 01, 2027, and be applicable for FY 2027-28 onwards.

Supply of manpower included within the scope of "work" for TDS purpose

Under the existing provisions, there has been considerable interpretational ambiguity as to whether payments for supply of manpower are covered u/s. 194C of ITA 1961 (payments to contractors) or section 194J of ITA 1961 (fees for professional or technical services), particularly in cases where the manpower supplied performs white-collar or skilled functions. Owing to this ambiguity, many payers have adopted a conservative approach and deducted tax at the higher rate of 10% u/s. 194J of ITA 1961. This has resulted into blockage of working capital of manpower service providers where margin thereof is lower as compared to tax deducted u/s. 194J.

In order to put the matter beyond doubt and to reduce avoidable disputes and litigation, it is proposed to amend the definition of "work" u/s. 402(47) of ITA 2025 so as to expressly include supply of manpower to a person to work under his supervision, control or direction.

Consequently, payments made for supply of manpower shall be treated as payments to contractors, and tax shall be required to be deducted at source at the rate of 1% or 2%, as applicable. Necessary amendments have also been carried out in the relevant TDS Table forming part of section 393(1) of ITA 2025.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Rationalization of TCS Rates

Section 394(1) of ITA 2025 provides TCS rates. In order to simplify compliance and provide relief to collectees, it is proposed to rationalize the rates of TCS by providing uniform rate of 2% to the extent possible by reducing certain rates while suitably increasing others, where necessary. The corresponding provisions under ITA 1961 were contained in section 206C.

Rationalized TCS rates are proposed as follows:

#	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, lignite, or iron ore	1%	2%
5	Remittance under Liberalized Remittance Scheme (LRS) – education/medical	5% (education / medical treatment) 20% (other purposes)	2% (education / medical treatment) 20% (other purposes)
6	Sale of overseas tour programme package including related expenses	5% (up to INR 10 lakhs) / 20% (more than INR 10 lakhs)	2% (no threshold)

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

No TDS on interest paid to co-operative societies engaged in banking

Section 393(4) (Table: Sl. No. 7, Column C(a)(i)) provides that no tax shall be deducted on interest other than interest on securities referred to in section 393(1) of ITA 2025, where such interest is credited or paid to a banking company.

Under the corresponding provision of ITA 1961, i.e. section 194A(3)(iii)(a), no tax was required to be deducted on interest credited or paid not only to a banking company but also to any co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank).

In order to align the provisions of ITA 2025 with ITA 1961, it is proposed to amend section 393(4) (Table: Sl. No. 7, Column C(a)(i)) so as to provide that no tax shall be deducted on interest income (other than interest on securities) credited or paid to any co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank).

This amendment is clarificatory in nature and seeks to bring the provisions of ITA 2025 in line with the erstwhile section 194A(3)(iii)(a) of ITA 1961, without altering the scope of TDS.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

No TDS on interest on compensation in motor accidents claim

Section 393(4) of ITA 2025 provides for cases where tax is not required to be deducted.

Under section 393(4) (Table: Sl. No. 7, Column C(c)(iv)), no tax is required to be deducted on interest on the compensation amount awarded by the Motor Accidents Claims Tribunal, where the amount or the aggregate of such interest income does not exceed INR 50,000 during the FY. The corresponding provision under ITA 1961, namely section 194A(3)(ixa), was in line with the provision under ITA 2025 and similarly provided relief from TDS on such interest income up to the specified threshold.

As the Bill proposed to treat such interest income as exempt from tax, it is proposed to amend section 393(4) (Table: Sl. No. 7, Column C(c)(iv)) of ITA 2025 to provide that no tax shall be deducted on interest on the compensation amount awarded by the Motor Accidents Claims Tribunal to an individual, without applying the monetary threshold.

This amendment is relief-oriented in nature and seeks to extend additional benefit to individuals receiving compensation pursuant to motor accidents.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Electronic issuance of lower/nil TDS & TCS certificate

Section 395 of ITA 2025 provides for issuance of certificates for TDS/TCS at lower or nil rate. In such cases, an application for such a certificate is required to be made before the Assessing Officer, who, upon being satisfied that the estimated total income of the applicant justifies deduction of tax at a lower rate or at nil rate, shall issue the certificate. The procedure for issuance of such certificate is currently uniform for all taxpayers, regardless of the amount of income involved.

In order to simplify the procedure and reduce the compliance burden, particularly for small taxpayers, it is proposed to enable filing of applications electronically before a prescribed income-tax authority, subject to conditions as may be prescribed. The prescribed authority shall examine the application through electronic verification and may issue the certificate if the prescribed conditions are satisfied or reject the application if the conditions are not met or the application is incomplete.

The categories of taxpayers eligible for this simplified mechanism and the authority empowered to process such applications shall be prescribed by the CBDT through rules.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Building Successful Partnerships | INDIA BUDGET 2026

Skill India–ILO Collaboration

Partnership between India's Skill Development Mission and the International Labour Organization advancing vocational training programs, industry-aligned certification frameworks, employment generation initiatives, and workplace safety standards across diverse sectors including hospitality, construction, technology, manufacturing, and services to enhance workforce competitiveness, promote decent work, and align skill development with global labor market requirements.

No TAN for resident Individual/HUF buying immovable property from non-resident

Section 397(1)(a) of ITA 2025 provides that every person deducting or collecting tax shall apply for allotment of TAN. Clause (c) of the said sub-section specifies cases where a person is not required to obtain TAN.

At present, where a person purchases an immovable property from a resident seller, the buyer is not required to obtain TAN for the purpose of TDS. However, where the seller of the immovable property is a non-resident, the buyer is required to obtain TAN to deduct tax at source u/s. 393(2) (Table: Sl. No. 17) of ITA 2025. This results in an additional compliance burden for the buyer, particularly in cases involving a single or one-time transaction, as the requirement to obtain TAN arises only for such transaction.

In order to reduce the compliance burden for resident individuals and HUF, it is proposed to amend section 397(1)(c) of ITA 2025 so as to provide that a resident individual or HUF shall not be required to obtain TAN for the purpose of deducting TDS on consideration for transfer of immovable property u/s. 393(2) (Table: Sl. No. 17), even where the seller is a non-resident.

This amendment is proposed to be effective from October 01, 2026 onwards.

Binding nature of CBDT guidelines under TDS / TCS provisions

Section 400(2) of ITA 2025 provides that the CBDT, with the previous approval of the Central Government, may issue guidelines to remove any difficulties arising in giving effect to the provisions relating to TDS and TCS, and that such guidelines shall be laid before each House of Parliament.

Under the corresponding provisions of ITA 1961, such guidelines are expressly provided to be binding on the income-tax authorities as well as on the person liable for TDS or liable to collect TCS. However, section 400(2) of ITA 2025 does not presently contain an explicit provision conferring binding effect of such guidelines. The absence of an express statutory mandate may lead to uncertainty and inconsistent application of the TDS/TCS provisions by the income-tax authorities as well as by deductors and collectors.

In order to align the provisions of ITA 2025 with the legal position prevailing under ITA 1961, it is proposed to amend section 400(2) of ITA 2025 to make such guidelines issued by CBDT are binding in nature.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Ashoka University and the University of Oxford collaborate through academic and research engagements, most notably via a partnership between Ashoka's Centre for the Creative and the Critical (CCC) and The Oxford Research Centre in the Humanities (TORCH), enabling jointly-run courses, seminars, and cross-institutional scholarly exchange.

Tax Returns

Due date extended for non-audit cases having business income

Section 263 of ITA 2025 prescribes the provisions relating to filing of return of income, specifying the classes of persons required to file, the due dates for submission, and the various types of returns, including original, belated, revised, and updated returns.

Section 263(1)(c) of ITA 2025 specifies the due dates for filing returns of income for various classes of taxpayers, depending upon the nature of income and compliance requirements applicable to them. With a view to providing additional time to taxpayers engaged in business or profession whose accounts are not subject to audit, as well as partners of such firms, it is proposed to extend such time limit in section 263(1) of ITA 2025. Similar amendment is also proposed in section 139(1) of ITA 1961.

Considering the above, the due date for filing return of income for FY 2025-26 & onwards is summarized as under:

#	Type of Case	Existing Due Date*	Proposed Due Date*
1	Non-audit cases		
	• Assessee having income from profits and gains of business or profession	31st July	31st August
	• Partner of a firm whose accounts are not required to be audited, or the spouse of such partner (where section 10 of ITA 2025 is applicable to spouse)	31st July	31st August
	• Assessee other than above (in whose case ITR 1 and 2 is applicable)	31st July	31st July
2	Audit Cases - other than Transfer Pricing cases	31st October	31st October
3	Audit Cases – Transfer Pricing cases	30th November	30th November

* from the end of the financial year to which income relates

The proposed change in the provisions of ITA 1961 will be effective from March 01, 2026 for return of income of AY 2026-27 (FY 2025-26) and changes in ITA 2025 are effective from April 01, 2026 for return of FY 2026-27 onwards.

Extension of time limit for filing of Revised Return

Section 263 (5) of ITA 2025 allows a taxpayer to file a revised return to correct any omission or incorrect statement in an original or belated return. Currently, a revised return can be furnished within 9 months from the end of the relevant FY or before completion of assessment, whichever is earlier. However, as the time limit for belated return also coincides with 9-month period allowed for filing revised return, practically a taxpayer filing a belated return does not get time to revise such return, if required.

To address this, it is proposed to extend the time limit for filing revised return from 9 months to 12 months from the end of the relevant FY. However, in case belated return is to be filed after 9 months from the end of the relevant FY, fee u/s. 428(b) is also proposed for revised returns filed beyond 9 months period as under :

Total Income	Late Fee
Up to INR 5,00,000	INR 1,000
More than INR 5,00,000	INR 5,000

Similar amendment is also made in section 139(5) of ITA 1961 to allow a taxpayer to file revised return within such extended time limit along with similar levy of fee by insertion of section 234-I of ITA 1961 in respect of return of income of AY 2026-27.

Updated Return – Scope extended

Section 263(6) of ITA 2025 provides for filing of updated return within 48 months from the end of the FY succeeding the relevant FY. Currently, updated return cannot be filed if the return is of loss & results in a reduction of tax liability, increase a refund, or if assessment, reassessment, search, survey, or prosecution proceedings are pending or completed. To improve voluntary compliance and accuracy, it is proposed to allow filing of updated returns in following cases -

- Reducing the amount of loss as compared to loss earlier claimed in the return
- On receipt of notice of reassessment section 280 of ITA 2025, provided such updated return is filed within time limit specified in such notice. If he files such updated return, he is not required to file return in pursuance of notice u/s. 280.

In pursuance to above, a consequential amendment has also been made u/s. 267 of ITA 2025. The said section, inter alia, provides for payment of additional income-tax (over and above the aggregate of tax and interest) while filing the updated returns such as 25% if filed within 12 months, 50% if filed within 24 months, 60% if filed within 36 months and 70% if filed within 48 months.

In cases where an updated return is filed pursuant to a notice u/s. 280, it is proposed that the additional income-tax payable shall be further increased by 10% of the aggregate of tax and interest. However, income on which such additional tax is paid shall not be subject to penalty u/s. 439 of ITA 2025.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards. Further, similar amendments are also proposed in section 139(8A), section 140B & section 270A of ITA 1961 to file updated return in above cases in respect of return of income pertaining to AY 2026-27 and earlier years.

Reporting of PAN for non-business transactions

As per section 262(10) of ITA 2025, CBDT is empowered to frame rules prescribing the requirement to quote Permanent Account Number (PAN) for transactions relating to business or profession.

In order to enhance reporting mechanisms and ensure effective identification of persons involved in financial and other specified transactions, it is proposed that CBDT can prescribe rules for quoting of PAN in specified documents, including documents not connected with business or profession.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Rationalization of provision relating to clubbing of income

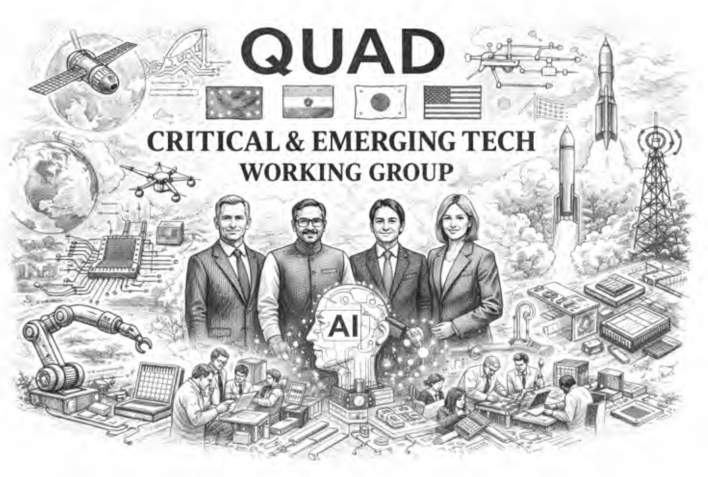
The provisions of section 99 of ITA 2025 (Section 64 of ITA 1961) deal with the clubbing of income in the hands of individuals if income arises to the spouse of such individual by way of salary, commission, remuneration etc. from a concern in which such individual has a substantial interest (except where such income of spouse is attributable to technical or professional qualifications) and income arising to the spouse from the assets transferred by such individual without adequate consideration. Further, for computing the income from assets transferred to spouse and invested by the spouse in specified situations, the computation mechanism has been provided in section 99(2) of ITA 2025. However, in the said mechanism, an incorrect reference was provided thereby leading to an absurd interpretation of referring to salary, commission etc. of the spouse which actually had not connection with the assets. This was an inadvertent error which has been now rectified through correct referencing.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Removal of duplication of reference to certain provision under new tax regime

The provisions of section 202 of ITA 2025 (Section 115BAC of ITA 1961) provide for reduced tax rates for individual, HUF, AOP, BOI and artificial judicial persons if the taxpayers do not claim exemption, deduction or incentives, except a few. Further, while considering the reduced tax rates for taxpayers, the deduction under Chapter VIII (except a few provisions) has already been excluded which includes the deduction of profit in respect of newly established units in SEZ. However, inadvertently, the list of exclusions also had a specific reference to section 144 of ITA 2025 (Section 10AA of ITA 1961) which provides the deduction of profit in respect of newly established units in SEZ, already forming part of Chapter VIII, an exclusion of which has already been provided. This duplication is now proposed to be removed.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.



Building Successful Partnerships | INDIA BUDGET 2026

QUAD Critical & Emerging Tech Working Group

Multilateral collaboration among Australia, India, Japan, and the United States focused on advancing cooperation in critical and emerging technologies including artificial intelligence, quantum computing, semiconductors, cybersecurity, biotechnology, and space exploration, aimed at establishing technology standards, promoting innovation, and ensuring secure and resilient supply chains in the Indo-Pacific region.

Compliances & Procedures

Mandatory pre-payment for stay – Quantum reduced

Currently, as per Office Memorandum (F No 404/72/93-ITCC) read with Instruction no 1914 issued by CBDT, in case appeal is pending before first appellate authority, the stay can be granted if a taxpayer deposits 20% of tax demand raised. The Hon'ble FM in her budget speech has stated to reduce such rate to 10%. This would be a very welcome step to reduce the financial hardship in respect of demand pertaining to litigated matters. We anticipate that necessary instruction will be issued by CBDT in this regard.

DIN errors do not make orders invalid

CBDT Circular No. 19 of 2019 dated August 14, 2019, mandated that any communication relating to assessment, appeals, orders, exemptions, enquiries, investigations, verification, penalties, prosecution, rectification, approvals, etc. issued on or after October 1, 2019, must carry a computer-generated Document Identification Number (DIN) quoted in the body of such communication. High Courts have on number of occasions held that non-quoting or incorrect quoting of DIN, as mandated by above CBDT Circular, rendered assessment orders or notices as invalid.

The Bill proposes to introduce Section 292BA in ITA 1961 with an objective of addressing litigation arising from defects in quoting the DIN in assessment orders. The proposed section provides the assessment proceedings shall not be considered as invalid on ground of any 'mistake, defect or omission' in quoting of DIN in assessment order if such order is referenced by DIN in any manner. The provision is proposed to be introduced with a non-obstante clause overriding all of the existing judgments, orders or decree of any court.

Further, the DIN is required to be referenced in any manner in the assessment order. The provision does not prescribe any particular format, location or manner in which the DIN must appear on the assessment order. It is sufficient if the assessment order can be linked, traced or correlated to a DIN through any mode, whether in the body of the order, an annexure, a covering communication, an electronic record. One has to wait for how courts interpret this phrase and decide what manners of communication are considered as manners of communication as envisaged in section 292BA.

Here, it is further to note that the proposed provisions deal merely with the assessment order and not the other communications such as notices, intimation etc. Therefore, one may take a view that the above proposed amendment may not apply to such communications and law decided by courts still apply to such communications.

Also, the provision does not validate assessments where no DIN was generated at all, nor does it cure cases where the order is completely untraceable to any computer-generated DIN. The provision merely clarifies that defects relating to the quoting of DIN to be cured u/s. 292BA when DIN is referenced to order in any manner.

It is interesting to note though in the Memorandum explaining the above changes provides that such amendment is effective retrospectively from October 01, 2019, on going through the bare amendment, it is noticed that the date from which such amendment is effective is not provided in clause no. 26 of the Bill. This appears to be an apparent mistake. If such mistake is not corrected before passing of the Bill, as per section 2 of the Bill, the amendment shall be considered effective from April 01, 2026. It will generate a new issue for litigation as the ITA 1961 will be repealed by that date. A repealed Act may be amended but the date of insertion has to be before the date of repeal being March 31, 2026. Except that, this lacuna is filled up before parliament adopts the bill, this lacuna is filled up, there is a distinct possibility that Section 292BA as proposed to be inserted will never take effect and will generate independent litigation.

Similar amendments have also been proposed by way of insertion of Section 522 in ITA 2025 which shall apply from April 01, 2026.

Passing of tax assessment order - JAO vs FAO resolving controversy retrospectively

CBDT issued a notification dated March 29, 2022 and formulated a scheme called "the e-Assessment of Income Escaping Assessment Scheme, 2022" in exercise of the powers conferred by Section 151A of ITA 1961. The scheme provides that the assessment, reassessment or recomputation u/s. 147 of ITA 1961 and the issuance of notice u/s. 148 shall be through automated allocation and in a faceless manner as per scheme notified in Section 144B for making assessment or reassessment of total income or loss of the assessee.

Following the introduction of the Faceless Assessment Scheme, several High Courts quashed reassessment notices issued u/s. 148 by Jurisdictional Assessing Officers ('JAO'). The courts held that u/s. 151A, such notices should have been issued by the Faceless Assessing Officer ('FAO') through the National Faceless Assessment Centre (NaFAC).

The amendment proposed by the Bill suggests that it was never the intention to mandate NaFAC to get involved for pre-assessment enquiry or for issuance of section 148 notices. Accordingly, it has been proposed to introduce section 147A which clarifies that for the purposes of Section 148 (issuance of notice) and Section 148A (inquiry before notice), the "Assessing Officer" shall mean an Assessing Officer other than the NaFAC or any assessment unit. This explicitly validates the jurisdiction of the JAO to issue these notices.

The amendment has been proposed to be introduced with retrospective effect and that too giving overriding effect over judgements of courts and decree of court already passed declaring notices and orders as invalid where same has been passed by JAO and not FAO.

It shall be noted that Hight Courts have divided opinion on above issue where Bombay High Court in ***Hexaware Technologies Ltd. v. ACIT [2024] 162 taxmann.com 225,*** Telangana High Court in ***Kankanala Ravindra Reddy v. ITO [2023] 156 taxmann.com 178,*** Punjab & Haryana High Court in ***Jatinder Singh Bhangu v. Union of India [2024] 165 taxmann.com 115,*** have given view in favour of taxpayer whereas Delhi High Court in ***T.K.S. Builders (P.) Ltd. v. ITO [2024] 167 taxmann.com 759*** and Gujarat High Court in case of ***Snehdham Trust (TS-1589-HC-2025(GUJ)*** have given ruling in favour of the revenue. The Revenue's SLPs against all the above decisions involving batch of almost 1000 cases are still pending before the Supreme Court which is now scheduled for final hearing on February 17, 2026. There are also cases where revenue has not preferred an appeal before higher court for reasons such as low tax effect etc. However, one may have to wait to see how Revenue reacts to such cases which are already settled for said reasons.

Accordingly, the Supreme court may have to decide the applicability of above amendment including power of parliament to introduce amendment on matter which is pending before Supreme Court for final hearing. It may also need to adjudicate law by drawing a distinction between pending litigation, where the provision may be applied, and for completed matters, where finality principles may prevail and amendment may not apply in such cases. Having said that, as per reports by Taxsutra, the SC has already disposed off one batch of JAO-FAO cases by remitting matters back to HC permitting revenue to approach HC and bring to the notice of HC the retrospective clarifications as proposed in the Bill.

The above amendment has been made with retrospective effect from April 01, 2021. Suitable amendment has also been proposed in corresponding section 279 of ITA 2025.

Block Assessment - undisclosed income of any other person

Section 295 of ITA 2025 authorizes the Tax Officer to assess undisclosed income of person other than the person in whose case search was initiated or requisition is made. The block period for which the Tax officer can assess income of other person, is aligned with the block period of the person in whose case search was initiated. Section 301 of ITA 2025 defines block period as six years preceding the year in which search was initiated or requisition was made and the period starting from 1st April in which search was initiated or requisition is made upto the date of execution of last of authorization for search or such requisition is made. Accordingly, though no undisclosed income pertaining to other person is unearthed during search, the Tax Officer is authorized to assess income of such other person for preceding six years.

In order to reduce the tax compliance of person other than the person in whose case search is made, the Bill proposes to rationalize the time limit for which assessment can be made. For other person, the block period shall depend on the year to which the undisclosed income relates. If undisclosed income relates to the immediately preceding year in which search was initiated or requisition was made and ending on date of search / requisition, then the block period for carrying assessment would be limited to preceding year and the year in which search / requisition was made. Similarly, if undisclosed income relates to any one year from block of five years other than the immediately preceding year in which search was undertaken, then block period shall constitute of the year for which undisclosed income pertains to.

The summary of proposed time limit is as follows:

Undisclosed Income pertains to	Block period for assessment
Immediately preceding year in which search was initiated, or requisition is made or search year	Immediately preceding year + Year of search starting from 1st April to date of execution of last of authorisation
Any one year other than immediately preceding year	The year for which undisclosed income pertains to
More than one year	Block of six years

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Extension of time limit for completion of block assessment

Section 296 of ITA 2025 prescribes the time limit for completion of block assessment within 12/13 months from the end of the quarter in which last date of execution of the last search authorization or requisition was made.

In group cases, the existing methodology of calculating the time limit resulted in different dates of limitations in view of different last dates for authorization of search. In order to streamline and consolidate, it is proposed to provide for a time limit of 18 months with a clear start date i.e. from the end of the quarter in which search was initiated.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Penalties & Prosecution

Fees for default in filing of tax audit & TP report & other statement

The Bill by removing the penalty provision as applicable proposes to levy mandatory fees as stated below in case of default in getting books of account audited and failure of furnishing transfer pricing reports as under:

Type of default	Period of Default	Applicable Fees (in INR)
Failure to get accounts audited and to furnish tax audit report within due date	Delay up to one month Delay more than one month	75,000 1,50,000
Failure to furnish transfer pricing report within due date	Delay up to one month Delay more than one month	50,000 1,00,000

Earlier, the Income Tax Authority used to initiate a penalty proceeding on such defaults and if reasonable / sufficient cause was shown, no penalty was levied. With the proposed amendment, it would now be mandatory to pay the fees. Further, considering the filing of such reports online, it appears that only after payment of such fees, taxpayers would be able to file / upload the audit report etc. Further, since it is a fixed fee, possibility of claiming deduction of such fees as expenditure cannot be ruled out.

The Bill further proposes to levy fees of INR 200 per day subject to maximum of INR 1,00,000 in case of delay in filing of statement of financial transaction or reportable account u/s. 508(1) of ITA, 2025 within prescribed time limit. Rules in this regard will be notified.

Further, as per existing provision of section 454 of ITA 2025, in case of default in filing of statement of financial transactions or reportable account pursuant to a notice issued by income tax authorities, penalty of INR 1,000 per day is leviable without any upper cap. Now, it is proposed that in such cases, penalty shall not exceed INR 1,00,000.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Unexplained income - Rationalization of tax and penalty provisions

Under the existing provisions of section 195 of ITA 2025, where the total income of the taxpayer includes any income in the nature of cash credits (Section 102), unexplained investments (Section 103), unexplained asset (Section 104), unexplained expenditure (Section 105) or amount borrowed or repaid through negotiable instrument, hundi, etc. (Section 106) as reflected in the return of income filed by the taxpayer u/s 263 of ITA 2025 or determined by the Assessing Officer, the income tax on such nature of income shall be taxed at the special rate of 60%.

Further, against such nature of income which falls u/s 102 to section 106 of ITA, 2025 no deduction in respect of any expenditure or allowance or set off of any loss shall be allowed to the taxpayer.

Section 439 of ITA 2025 provides for the imposition of penalty, in addition to tax, on the taxpayer in cases of under-reported income. The penalty is levied at 50% of the amount of tax payable on such under-reported income. In cases where under-reporting arises due to misreporting of income, the penalty is enhanced to 200% of the tax payable on the misreported income for the relevant assessment year. Further, there is another section 443 of the existing ITA 2025 which talks about imposition of penalty on the taxpayer in cases where the income determined by the Assessing Officer as referred u/s 102 to section 106 of ITA 2025, the taxpayer is liable to pay a penalty equal to 10% of the tax payable in addition to the tax.

In cases where additions are made on account of income falling u/s 102 to section 106 of ITA 2025, the applicable tax rate prior to the Taxation Laws (Second Amendment) Act, 2016 was 30%. However, by virtue of the amendment introduced through the Taxation Laws (Second Amendment) Act, 2016, effective from April 01, 2017, the rate of tax on such income was doubled, increasing from

30% to 60%. The increase in the rate was introduced to align with the Prime Minister's vision of reducing black money and to support the demonetization process that had been carried out earlier in the same month when this amendment was enacted.

It appears that the primary objectives of the demonetization process undertaken in November 2016 have now been largely achieved. In order to alleviate the hardships faced and to reduce the overall tax burden, it is proposed that the applicable tax rate on income referred to under sections 102 to 106 of ITA 2025, be reduced from 60% to 30%. With this measure, the Finance Minister has effectively reinstated the 30% rate, which was in place prior to the amendment introduced through the Taxation Laws (Second Amendment) Act, 2016.

In the Bill, it is proposed to omit section 443 of ITA, 2025. Further, income falling under sections 102 to Section 106 of ITA 2025 will be brought within the ambit of under-reporting of income in consequence of misreporting, through the introduction of a new clause (g) u/s 439(11). Accordingly, penalty of 10% u/s 443 of ITA 2025 on income which falls under sections 102 to section 106 will now increase significantly to 200% u/s 439 of ITA 2025.

It is also proposed to grant waiver from penalty in cases of misreporting of income, as specified u/s 439(11)(a) to (f). Such waiver shall be available upon payment of 100% of the tax payable on the under-reported income. However, in respect of cases falling u/s 439(11)(e), the requirement shall be payment of 120% of the tax payable.

Please refer history of tax and penalty on undisclosed income as referred in Section 102 to Section 106 of ITA, 2025 for better understanding:

Period	Rate of tax	Penalty			Total Outflow (excluding surcharge)
		Rate of Penalty	Nature	Add. tax in case of Waiver of such penalty	
Prior to April 1, 2017	30%	Maximum 300% of tax	Discretionary	NA	Tax - 30% Penalty - upto 90% (300% of 30%) **Total – upto 120%**
From April 1, 2017 to March 31, 2026	60%	10% of tax*	Compulsory	NA	Tax - 60% Penalty - 6% (10% of 60%) **Total - 66%**
Or or after April 1, 2026	30%	200% of tax	Discretionary	120% of tax	*Normal case* Tax - 30% Penalty - 60% (200% of 30%) **Total - 90%** *In case of Waiver* Tax - 66% (30% + 36%) Penalty - 0%

(* This penalty is not applicable where such income is disclosed in return of income and tax at the rate of 60% is paid.)

Impact of the Amendment

Although the tax rate has been significantly reduced, providing considerable relief to the taxpayer, the corresponding change in penalty provisions could potentially have an opposite effect wherein such income is now to be categorized as under-reporting of income due to misreporting, two significant changes introduced:

- On one hand, the rate of tax applicable to such income has been reduced from 60% to 30%.
- On the other hand, the rate of penalty has been substantially increased from 10% to 200% of the tax amount.

This change will definitely reduce the tax burden on the taxpayer, simultaneously results in a substantial increase in the penalty burden, raising it from 10% to 200% of the tax amount.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Waiver of penalty now also in case of mis-reporting of income

Penalty u/s. 439 of ITA 2025 can be levied on account of under-reporting of income or misreporting of income as defined under such section. Penalty for under-reporting is 50% of tax payable on such income whereas penalty for misreporting of income being severe case is 200% of tax payable on such income.

Further, when no appeal is preferred against the assessment order, as per section 440 of ITA 2025, taxpayer can get immunity from levy of such penalty on fulfillment of certain conditions provided the said penalty is on account of under-reporting of income. However, currently there is no immunity from penalty in case of mis-reporting of income.

The Bill proposes to expand the scope of provision of section 440 of ITA 2025 to empower the tax officer to give waiver of penalty in case of mis-reporting of income. For getting such waiver, in addition to existing condition, such taxpayer is required to make payment of additional tax being 100% of tax payable on mis-reported income (120% of tax payable in case of mis-reporting on account of additions pertaining to cases of unexplained credit, investments etc. as referred in section 102 to section 106 of ITA 2025) and there is no prosecution proceedings initiated on such taxpayer under ITA 2025.

Further, the existing time limit of three months for passing order in such cases is done away with.

This is a welcome amendment proposed by the Bill as it will reduce unintended penalty and litigation of filing of appeal before CIT(A) wherein the taxpayer depending upon the facts of the case, can decide to apply for such waiver by making payment of amount being 100% of tax payable on mis-reported income instead of exposure of penalty of 200% of tax on mis-reported income u/s. 439 of ITA 2025.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards under ITA 2025. The corresponding amendment under ITA 1961 is proposed to be effective from March 01, 2026.

Exclusion of income offered in updated return from imposition of penalty

The taxpayer is entitled to file an updated return of income on payment of additional taxes. As per existing provisions, certain taxpayers were not eligible to file an updated return, for instance, in case of return claiming losses or search, or survey having been initiated or a notice having been issued for reopening the assessments. The Bill has proposed to extend the scope of updated return to enable filing of updated return in pursuance to notice issued for reopening of assessment.

In line with the said amendment, the Bill also proposes to exclude such additional income offered to tax in the updated return from levy of penalty for under-reporting and misreporting of income as provided u/s. 270A of ITA 1961.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards under ITA 2025. The corresponding amendment under ITA 1961 is proposed to be effective from March 01, 2026.

Penalty proceedings now integrated into assessment order

The existing provisions of section 471 of ITA 2025 lay down the procedure for levy of penalty. Penalty shall be imposed after giving reasonable opportunity of being heard and after taking appropriate approval of the Income Tax Authorities.

The Bill proposes to amend section 471 of ITA 2025 to provide that opportunity of hearing shall be granted by way of issue of show cause notice since it further proposes to levy penalty at the time of passing the assessment order or draft order made on or after April 01, 2027 and the penalty shall be part of quantum order itself.

The amendment requiring issuance of a show-cause notice to provide the taxpayer with an opportunity of being heard reinforces adherence to the principles of natural justice and seeks to prevent arbitrary or invalid penalty proceedings. In addition, the proposed integration of penalty proceedings with assessment proceedings aims to eliminate duplication and delays. Further, the Assessing office shall now be required to issue show cause notice for matters on merits and for penalty proceedings separately. Consequently, assessment and penalty proceedings will now be consolidated into a single common order, thereby reducing the compliance burden and expediting dispute resolution for both taxpayers and the income-tax authorities

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards under ITA 2025. The corresponding amendment under ITA 1961 is proposed to be effective from March 01, 2026.

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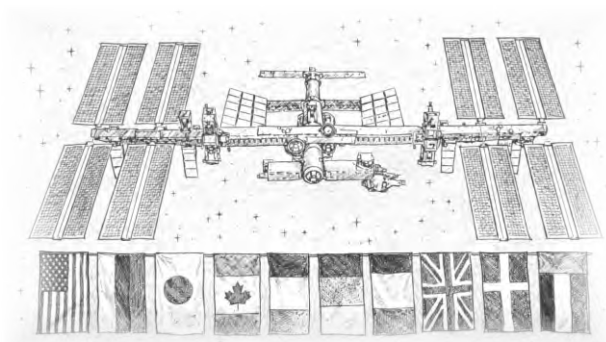

International Space Station
The International Space Station, the world's longest-running multinational space collaboration, uniting astronauts from across the globe in continuous orbit since 2000.

Introduction of penalty on non-reporting of crypto assets

ITA 2025 introduced mandatory reporting obligations for crypto-asset transactions u/s 509. A prescribed reporting entity is required to provide specified details about crypto transactions to the income tax authority within the prescribed time and manner. This amendment aligns with India's commitment to the Crypto-Asset Reporting Framework (CARF), which facilitates the automatic exchange of tax-related crypto-asset information among jurisdictions.

A new provision relating to penalty for non-furnishing of statements in respect of transactions involving crypto-assets has now been proposed in the Bill wherein a fees of INR 200 per day shall be levied for each day the failure continues.

Further, in cases pertaining to furnishing of inaccurate information or failure to comply with due diligence requirement as provided under the law, the Income-tax Authority may impose a penalty of up to INR 50,000.

With the introduction of mandatory reporting obligations for crypto-asset transactions, a corresponding penalty for failure to furnish such statements has also been instituted. As penalties will now be levied for non-submission of crypto-asset reports, reporting entities are expected to take these requirements seriously and duly transmit the information to the Income-tax Authorities. Such details may subsequently be incorporated into the Annual Information Statement ('AIS') or the Taxpayer Information Summary ('TIS'), thereby enabling the authorities to effectively trace these transactions and ensure their inclusion within the ambit of taxation.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Penalty for failing to furnish information to authorities

Section 466 of ITA 2025 provides that a maximum penalty of INR 1,000 may be imposed by the Joint Commissioner, Deputy Director, Assistant Director, or the Assessing Officer for failure to comply with the provisions of section 254 of ITA 2025 which empowers the Income-Tax authorities to collect information, and for failure to furnish such requisite information to the authorised Income-Tax authorities.

It is now proposed to increase such penalty to a maximum of INR 25,000 from the existing limit of INR 1,000.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

No interest on penalty demand up to pendency of appeal

The Bill has proposed that the order levying penalty shall be passed simultaneously with the passing of assessment order. Therefore, in case of any dispute about variation in assessment order, there may be a penalty order too, which can lead to higher demand. Further, if such demand is not paid within the time allowed in notice of demand, interest u/s. 411 of ITA 2025 is payable.

In order to provide relief to taxpayer on interest on penalty, with respect to demand pertaining to such penalty, it has been proposed that no interest u/s. 411 of ITA 2025 shall be charged up to the date of passing of order of CIT(A)/ ITAT/DRP. Similar amendments have also been made in relevant section of ITA 1961.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

DRC empowered to waiver of penalty

With a view to reduce pending litigations, the Government has taken various reforms like enacting Vivad se Vishwas Schemes and enhancing monetary limits for filing appeals before Higher Appellate Authorities. To add one more feather to its cap, the Finance Act, 2021 inserted new chapter XIX-AA and floated Dispute Resolution Committee (DRC) for resolving issues arising due to variation in the eligible order. On resolving the matter before DRC, the taxpayer gets immunity from penalty imposable on such orders.

The Bill now proposes to amend section 245MA of ITA 1961 to extend the powers of DRC to waive or reduce the penalty levied on such order.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards under ITA 2025. The corresponding amendment under ITA 1961 is proposed to be effective from March 1, 2026.

Rationalization of prosecution proceedings

One of the most significant structural reforms introduced by the Bill under ITA 1961 (for a period of time from March 01, 2026 till March 31, 2026) and under ITA 2025 coming into force from April 01, 2026 is the comprehensive rationalization and decriminalization of prosecution provisions.

Chapter XXII of ITA 2025, comprising sections 473 to 485 and section 494, which are similar to the prosecution framework contained in sections 275A to 278A and section 280 of ITA 1961. The reform reflects a conscious policy shift by the legislature to balance enforcement with ease of compliance, ensuring that criminal prosecution is reserved for serious, willful, and high-value tax offences, while technical, procedural, and low-value defaults are addressed through civil consequences.

Under ITA 1961, several prosecution provisions prescribed rigorous imprisonment ranging up to seven years, often without adequate monetary thresholds or differentiation between technical and genuine lapses and deliberate evasion. This often led to possible prosecution for procedural defaults and increased litigation and taxpayers were forced to file compounding applications for procedural defaults. The amendments to these sections of ITA 1961 and ITA 2025 are guided by the following core principles:

- Replacement of rigorous imprisonment with simple imprisonment
- Reduction in maximum imprisonment
  - ➢ General offences: capped at 2 years
  - ➢ Subsequent offences: capped at 3 years
- Introduction of monetary thresholds (INR 10 lakhs and INR 50 lakhs)
- Imposition of fine as the only punishment for minor offences

As per section 4 of the Bharatiya Nyaya Sanhita, 2023, the term rigorous imprisonment means imprisonment with hard labour. As against this, simple imprisonment means without being forced to do hard labour which is applied for minor offences or shorter terms.

The summary of the changes proposed by the Bill in the provisions of ITA 1961 and ITA 2025 are provided below for ease of reference:

Nature of Offence	Existing provisions	Proposed Amendment	ITA 1961	ITA 2025
Contravention during search / seizure	**Rigorous** imprisonment up to 2 years + fine	**Simple** imprisonment up to 2 years + fine	Section 275A	Section 473
Failure to afford facility during search	**Rigorous** imprisonment up to 2 years + fine	**Simple** imprisonment up to **6 months and/or fine**	Section 275B	Section 474
Removal / concealment of property to evade recovery	**Rigorous** imprisonment up to 2 years + fine	**Simple** imprisonment up to 2 years + fine	Section 276	Section 475
Failure to deposit tax deducted or payment of Tax in case of winnings from crossword puzzles or winnings from lottery for specified cases.(*)	Mandatory prosecution irrespective of amount - **Rigorous** imprisonment from **3 months to 7 years + fine**	These offences are proposed to be fully decriminalized and are no longer covered in this provision.	Section 276B(a)	Section 476 (a)
Failure to deposit TDS deducted general cases and in case of winnings from online games and consideration from virtual digital assets where the consideration is in partly or fully in kind.		A graded punishment mechanism based on the quantum of tax involved: Tax evaded/ withheld/ underreported **not exceeding INR 10 lakhs – Fine only** Tax evaded/ withheld/ underreported **ranging from INR 10 lakhs to INR 50 lakhs - Simple imprisonment up to 6 months / fine / both**	Section 276B(a)	Section 476(a)
Failure to deposit TCS	**Rigorous** imprisonment **3 months to 7 years + fine**		Section 276BB	Section 477
Wilful attempt to evade tax where tax sought to be evaded or under reported exceeds 25 lakhs	**Rigorous** imprisonment **6 months to 7 years + fine**		Section 276C(1)	Section 478(1)
Wilful attempt to evade payment of tax in any other case	**Rigorous** imprisonment up to **3 years + fine**		Section 276C(2)	Section 478(2)

Nature of Offence	Existing provisions	Proposed Amendment	ITA 1961	ITA 2025
Failure to furnish return (general cases) where tax that would have been evaded exceeds INR 25 lakhs	**Rigorous** imprisonment from **6 months up to 7 years + fine**	Tax evaded/ withheld/ underreported **Exceeding INR 50 lakhs - Simple imprisonment up to 2 years / fine / both**	Section 276CC(1)(a)	Section 479(1)(a)
Failure to furnish return in search cases	**Rigorous** imprisonment from **3 months to 3 years + fine**		Section 276CC (proviso)	Section 480
Failure to furnish return (general cases) others	Imprisonment from **3 months up to 2 years + fine**		Section 276CC(1)(b)	Section 479(1)(b)
False statement or verification where tax that would have been evaded exceeds INR 25 lakhs	**Rigorous** imprisonment from **6 months up to 7 years + fine**		Section 277(i)	Section 482(a)
False statement or verification in other cases	Imprisonment from **3 months up to 2 years + fine**			Section 482(b)
Abetment of false return / statement where tax that would have been evaded exceeds INR 25 lakhs	**Rigorous** imprisonment from **6 months up to 7 years + fine**		Section 278	Section 484(b)(1)
Abetment of false return / statement other cases	Imprisonment from **3 months up to 2 years + fine**		Section 278	Section 484(b)(2)
Failure to produce books / comply with notices	**Rigorous** imprisonment up to **1 year + fine**	**Simple** imprisonment for a term up to **six months, or with fine, or with both.**	Section 276D	Section 481
Falsification of books / false entries	**Rigorous** imprisonment from **3 months to 2 years + fine**	**Simple** imprisonment up to **2 years + fine**	Section 277A	Section 483

Nature of Offence	Existing provisions	Proposed Amendment	ITA 1961	ITA 2025
Second and subsequent offences	**Rigorous** imprisonment from **6 months to 7 years + fine**	**Simple** imprisonment **6 months to 3 years + fine**	Section 278A	Section 485
Disclosure of information by public servant	Imprisonment up to **6 months + fine**	**Simple** imprisonment up to **1 month/fine/ both**	Section 280	Section 494

(*)Where the winnings are wholly in kind or partly in cash and partly in kind (Section 194B) or where the benefit or perquisite is wholly in kind or partly in cash and partly in kind (Section 194R), but the part in cash is not sufficient to meet the liability of deduction of tax in respect of whole of the winnings, the person responsible for paying shall, before releasing the winnings, ensure that tax has been paid in respect of the winnings.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards under ITA 2025. The corresponding amendment under ITA 1961 is proposed to be effective from March 01, 2026.

Though the changes made are appreciated, there seems to be no logic to exclude prosecution initiated between February 01, 2026 till February 28, 2026 under ITA 1961.

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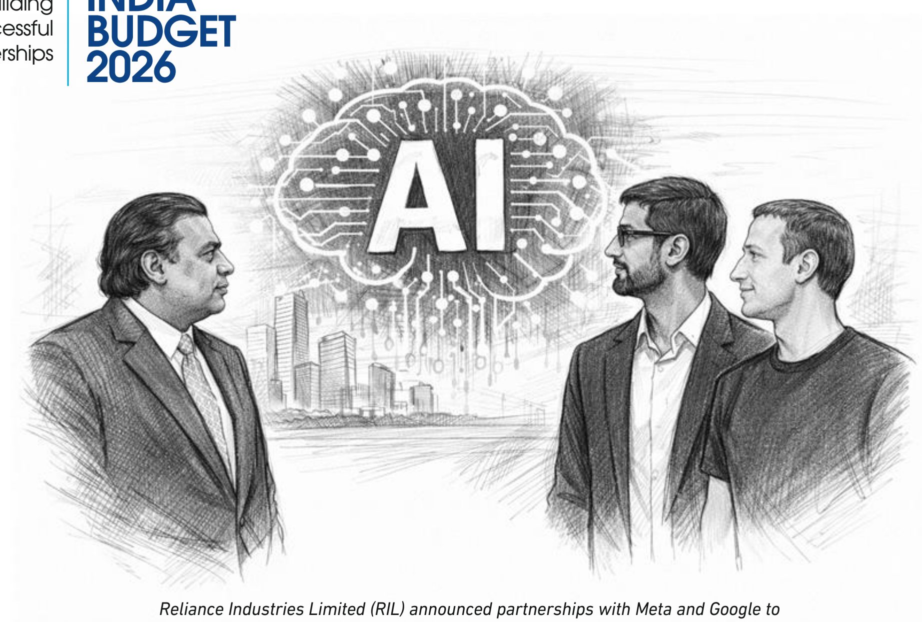

Reliance Industries Limited (RIL) announced partnerships with Meta and Google to build and scale enterprise artificial intelligence (AI) solutions for businesses in India and select international markets.

Trusts

NPO can claim benefit of tax exemption in case of belated return

Under section 349 of ITA 2025, the registered non-profit organization ('NPO') is required to file return on or before the due date of filing of tax return to claim tax exemption unlike the provision of ITA 1961 wherein such entity can claim such benefit even in case of filing of belated return. Accordingly, in order to align the provision with ITA 1961, it is proposed to amend the section to allow benefit of tax exemption in case such NPO files belated return.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Certain NPO violations not to attract registration cancellation

Section 351 of ITA 2025 provides list of specified violation by a registered NPO which can lead to cancellation of the registration. Such list *inter alia* includes carrying out of any commercial activities by registered NPO engaged in 'advancement of any other object of General Public Utility' (GPU). Under ITA 1961, such violation attracts taxing of income of such NPO at higher rate and not the cancellation of registration. Therefore, to align the provision of ITA 2025 with ITA 1961, necessary amendment has been proposed in section 351 of ITA 2025 whereby such violation is excluded from the specified list of violations that could have otherwise led to cancellation of registration.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Tax neutrality - Merger of registered NPO with another registered NPO

The provision of section 12AC of ITA 1961 provides for tax neutral merger of two registered NPOs. To provide such benefit under ITA 2025, section 354A has been inserted to provide that in case there is merger of two registered NPOs subject to fulfilment of condition to be specified, provision for accreted taxation is not applicable to it.

This amendment is proposed to be effective from April 01, 2026, and be applicable for FY 2026-27.

Building Successful Partnerships

INDIA BUDGET 2026

India and Germany strengthening partnerships in the fields of defence, science & tech and green & sustainable development

Co-operatives

Scope of deduction expanded to cover supply of cattle feed and cotton seeds

The provisions of section 149 of ITA 2025 provide for deduction of profits of co-operative society being primary society engaged in supplying milk, oilseeds, fruits or vegetables raised or grown by its members to i) a federal co-operative society engaged in similar activities, ii) to Government or Local Authority iii) or to Government company as defined in section 2(45) of the Companies Act, 2013 or corporation established under Central of State Act having same business activities. Now, to expand its coverage, the Bill proposes to provide for deduction of profits derived by such cooperatives from business of supplying cotton seeds and cattle feed.

This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Deduction of distribution of dividend income by Co-operative Society opting for Concessional Tax Regime

Section 149 of ITA 2025 (section 80P of ITA 1961) inter alia allows deduction of income by way of interest / dividend earned by resident co-operative societies from other co-operative societies. The provisions of section 203 of ITA 2025 provide for concessional tax rate of 22% in case of resident co-operative societies subject to non-availment of deductions under Chapter VIII (including section 149) and other restrictions given in said section. Thus, deduction in respect of co-operative societies given in section 149 of ITA 2025 (section 80P of ITA 1961) is not available to such co-operative societies if it opts for concessional tax regime mentioned above.

In order to provide a relief to such co-operative societies opting for concessional tax regime from taxation of dividend income, the Bill proposes to allow deduction u/s. 149 of ITA 2025 to the extent of dividend income received from other co-operative societies provided such income is distributed to its members at least one month before the due date of filing return of income. Such amendment is in line with benefits granted to domestic companies opting for concessional tax (22%) regime u/s. 203 of ITA 2025.

Similar benefits have also been passed to new manufacturing co-operative societies opting concessional tax regime u/s. 204 of ITA 2025. This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards.

Deduction of dividend income earned by federal co-operatives from companies

The existing provisions u/s. 149(2)(d) of ITA 2025 allows deduction with respect to dividend income earned by a co-operative society from another co-operative society. Dividend received from companies was not covered within the scope of deduction. However, considering the fact that Federal Co-operative societies are allowed to make investment in companies, a new section 150 has been proposed to introduce to allow deduction of dividend income earned by Federal Co-operative Society from any companies provided such income should arise from investments recorded in books on or before January 31, 2026, and such dividend income is distributed to its members at least one month before the due date of filing of return.

The deduction is available even if concessional tax regime is opted u/s. 203 or 204 of ITA 2025. This amendment is proposed to be effective from April 01, 2026, and be applicable from FY 2026-27 onwards and will be applicable for 3 years i.e. till FY 2028-29.

BMA & Foreign Asset Disclosure

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

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ('BMA') was enacted with the objective of detecting, taxing, and deterring the parking of undisclosed income and assets outside India **by resident taxpayers.** The Act operates as a stringent and standalone legislation, distinct from the Income-tax Act, providing for severe civil and criminal consequences in cases of non-disclosure of foreign income and assets. Although the BMA was introduced in 2015, adequate awareness regarding the scope of disclosure requirements—particularly reporting obligations in Schedule FA of the return of income—was initially limited. Further, the government authorities have also obtained substantial information about non-disclosure by individuals of such foreign assets through Automatic Exchange of Information mechanism with other countries.

Under section 41 of the BMA, such income or asset is chargeable to tax at the rate of 30 per cent, along with a penalty of three times the tax amount, resulting in an effective outgo of 120 per cent of the value of the undisclosed asset or income. In addition, the BMA provides for flat monetary penalties of INR 10 lakhs u/s. 42 and 43 for failure to furnish a return of income or for non-reporting or inaccurate reporting of foreign assets in the return of income, irrespective of the value of such assets (except value of foreign bank account up to INR 20 lakhs). Also, in case the person has wilfully failed to file or files inaccurate information the existing provisions of BMA provide for a rigorous imprisonment ranging from 6 months to 7 years with fine.

These provisions treat non-disclosure of foreign assets as a serious economic offence, even where the underlying income may be nominal or the asset may have been acquired historically. In order to facilitate voluntary compliance and provide a mechanism for resolution of such non-disclosure, the Bill has introduced a Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 ('FAST-DS 2026') to settle non-compliance to BMA particularly prevalent in cases involving but not limited to:

- Non-disclosure of assets inherited
- Inadvertent non-disclosures for small taxpayers
- Holdings arising from foreign employment benefits such as ESOPs or RSUs
- Dormant or low value foreign bank accounts of former students
- Savings or insurance policies of returning non-residents or assets held by individuals on overseas deputation

FAST-DS 2026 is a time bound scheme permitting declaration of foreign assets & income, with payment of prescribed tax or fee based on the nature and source of acquisition. The salient provisions and features of the scheme are discussed in ensuing paragraphs.

Operative Period of FAST-DS 2026

The 'date of commencement' and the 'last date' for making a declaration under FAST-DS 2026 are yet to be notified by the Central Government. The scheme shall remain open only for the notified period.

Eligibility of Declaration

Any person may make a declaration (hereinafter referred to as a 'declarant'), on or after commencement of this scheme but before the last notified date of this scheme, for any previous year in respect of specified foreign income or assets, where:

- He has failed to furnish ITR u/s. 139 of ITA, 1961
- He has failed to disclose such assets or income in ITR filed under ITA, 1961 **prior to the commencement of this scheme**
- Such asset or income has escaped assessment within the meaning of Section 147 of ITA, 1961

The FAST-DS 2026 scheme shall not apply in respect of:

- Any income or assets which directly or indirectly represents "proceeds of crime" for which proceedings have been initiated or is pending under the Prevention of Money Laundering Act, 2002.
- Any income or asset relating to an AY for which assessment proceedings have been completed under the BMA 2015.

Specified Foreign Income / Assets eligible for FAST-DS 2026 vis-à-vis amount payable

Clause 117 - The FAST-DS 2026 has prescribed types of assets or income which are eligible to be declared under this scheme and the respective amounts payable on such declaration.

#	Type of assets or income	Amount Payable	Conditions
1	Amount payable where "undisclosed assets located outside India" or "undisclosed foreign income" are declared	Sum of: i. Tax @ 30% of the value of undisclosed assets located outside India as on March 31, 2026 ii. Tax @ 30% of the value of undisclosed foreign income iii. 100% of [(i) + (ii)] (Effectively being 60% of the value of undisclosed foreign income or assets)	The aggregate value of undisclosed foreign assets and undisclosed foreign income shall not be more than INR 1 Crore.
2	Where the foreign asset was acquired during non-resident status or from income already offered to tax in India but was not disclosed in the relevant return schedules	Fees of INR 1 Lakh	The value of undisclosed foreign assets shall not be more than INR 5 Crore.

Thus, the scheme provides an opportunity to an individual to pay off 60% of the value of asset or foreign income provided that the value does not exceed INR 1 crore and make compliance with the provisions of BMA, thereby granting immunity from otherwise harsh penalties and possible prosecution as specified in the provisions of BMA.

As per FAQ issued - In case of non-declaration of same asset in multiple years the fee of Rs 1 lakh will be applicable for year 1 only, thereafter it would be deemed that the asset remains disclosed. However, if there are assets that were acquired in multiple years, then fee would be chargeable for corresponding first years when the asset was undisclosed.

A single declaration may include multiple items of undisclosed foreign income or foreign assets, subject to compliance with the monetary limits and other conditions specified under the Scheme.

Process and outcome of the declaration

The applicant has to file declaration u/s. 116 of the Scheme wherein the prescribed authority will verify eligibility to opt for the scheme and correctness of the declaration. The declaration shall be invalid if any material particular furnished is found to be false or there is violation of any condition referred to in the scheme.

Then the authority, within 1 month communicate with the declarant the amount payable by the declarant. The said amount shall be payable within 2 months from the end of the month in which communication is received. If at all the Assessee fails to make the payment within 2 months, he may make the payment in a further period of 2 months along with interest @ 1% for every month or part thereof.

The income or assets which have been declared in this scheme, shall not be included in the total income for any AY under the ITA, 1961 or BMA 2015, subject to payment of the amount determined. This is in line with provisions of Section 4(3) of the BMA following the principle of 'mutually exclusive' assessment.

With respect to income or assets declared under this scheme, the declarant shall not be entitled to claim rectification or revision of any assessment already completed under the ITA, 1961 or BMA 2015 and further, he cannot claim any set off or relief in appeal or other proceedings in relation to such assessment.

Any amount paid under the scheme shall be non-refundable. Thus, if the declarant pays additional taxes inadvertently, the same will not be refundable to him/her vide any refund application or rectification application.

Where a valid declaration is made and also the amount is paid as per the Scheme, the assessee shall be granted immunity from levy of any further tax or penalty and also from prosecution under BMA 2015 for previous year ending on March 31, 2026 or any earlier years.

Where a declaration is made under this scheme, the Assessing Officer is bound to consider the said declaration while finalizing the assessment order for pending assessments under ITA 1961 or BMA 2015.

Issue for consideration

The scheme is also open for assessee whose case is pending before the authorities but one will have to be mindful of the proceedings which are time barring on March 31, 2026 as the date of commencement of the Scheme is still uncertain and the authorities may push for closure of the proceedings to recover tax and fees without granting the benefit of the Scheme as once the assessment is completed the assessee is ineligible to file declaration under the Scheme.

For example, if the time barring date of passing order under BMA is March 31, 2026 for any given proceedings, and the scheme commences from 15th February 2026. In that case, the assessee needs to proactively file the declaration before the AO passes the order as otherwise the assessee will no longer be eligible.

The FAST DS-2026 has introduced the definition of "Undisclosed Foreign Income" defining it as the total amount of income of an assessee from a source located outside India which was chargeable to tax in India but has not been offered to tax.

While the BMA defines the term "Undisclosed Foreign Income and Asset" to mean total amount of undisclosed income of an assessee from a source located outside India and the value of the undisclosed asset located outside India. The term used in FAST-DS 2026 "chargeable to tax in India" is missing in the BMA 2015. If definition as per the scheme is adopted in BMA, it would substantially narrow and clarify the scope by shifting the focus from subjective satisfaction of the Assessing Officer to an objective test of chargeability under the Income Tax Act.

With respect to the "value of the asset" for the purpose of declaration, the scheme states that it means the fair market value determined in the manner prescribed. Under the BMA Rules, 2015, the value of asset was determined as per Rule 3, being the year in which the asset comes into notice of the AO. Hence, clarification will have to be issued as to what construed Value of Asset for the FAST-DS scheme.

In the scheme it is mentioned "any income or asset declared not to affect finality of completed assessment". However, it does not commensurate with the actual drafting of the provision. The scheme lays restriction on the assessee to ask for rectification or review for matter already assessed under ITA or BMA in view of the declaration filed by the assessee. However, similar restriction is not placed on the AO. Does it mean that based on the declaration for Year 2 can the AO rectify or revise the order already passed in Year 1? Although the income/asset may be granted immunity, it may have implications on other income/assets.

The scheme states that declaration filed will be void if any material particular furnished is found to be false or there is violation of any condition referred to in the scheme. However, there is no clarity if the declarant is allowed to file a revised declaration in case of any genuine error.

The scheme (read with FAQs issued) states that foreign assets pending to be disclosed in Schedule FA can be disclosed by paying fees of INR 1 Lakh. It means that if asset is same, then one-time fee of INR 1 Lakh will be applicable only for first year of non-disclosure and it would be deemed that asset remains disclosed for subsequent years. However, in genuine scenario such as dividend reinvestment wherein shares are allotted in subsequent years basis original investment, in that case department may opine to levy INR 1 Lakh for each year of dividend reinvestment non-disclosure in Schedule FA.

Conclusion

Overall, the FAST – DS 26, is an encouraging step as it reflects an approach of the government to provide an opportunity to the defaulters for addressing their non-compliance. However, it does not differentiate between bonafide or malafide intentions of the assessee and awards a similar way out to both the cases. Also, there are certain interpretational and procedural aspects which are yet to be notified and clarified for an effective implementation of the scheme. This initiative presents a golden opportunity for defaulters to review and regularize their positions and avail the benefit of the scheme in a compliant and orderly manner, thereby reducing future litigation and exposure to penal consequences and buying their peace of mind by obtaining immunity from prosecution under BMA.

Further, the assessee may also prepare a comparative analysis and check eligibility to file an updated return and pay requisite taxes thereof or file a declaration under the scheme as the quantum of tax and fees payment under the scheme may provide some arbitrage.

Exemption from prosecution under BMA for small offences

Section 49 and 50 of the BMA provides for rigorous imprisonment (3 to 10 years) and fine for willful non-furnishing of income tax return and willful omission in furnishing information in respect of foreign income or foreign assets.

The Finance (No. 2) Act, 2024 had amended the proviso to Sections 42 and 43 of the BMA, wherein effective from October 1, 2024, exclusion was provided against imposition of penalty for failure to file tax return or for failure to disclose in tax returns all types of foreign assets (other than immovable property) where their aggregate value did not exceed Rs 20 lakhs during the previous year which was earlier capped to INR 5 lakhs. There was an internal CBDT instruction dated August 18, 2025 which stated that prosecution should not be initiated for cases where penalty is not imposed/imposable as per Section 42 and 43 of the BMA, which in turn led to a position that due to the amendment in FA 2024, increased threshold was also to be considered for prosecution provisions u/s. 49 and 50 of the BMA. This was a derivation from the CBDT instruction, but the provisions of BMA were yet not amended.

To align the provisions with the spirit of the legislature and the CBDT instruction, the Bill proposes to amend the prosecution provisions of sections 49 and 50 of the BMA to mention that the they shall not apply in respect of non-filing of tax return or non-disclosure of foreign assets in the tax return if the aggregate value of such foreign assets (other than immovable property), does not exceed INR 20 lakhs at any time during the relevant previous year . It is important to note that immovable property continues to be excluded from this relief, regardless of value.

As the amendment is applied retrospectively from October 1, 2024. Prosecutions initiated or pending eligible cases falling within the above threshold for the period on or after October 1, 2024, would also not survive.

The amendment brings the prosecution provisions in alignment with the penalty framework under the BMA. It significantly reduces criminal exposure for resident taxpayers in cases pertaining to BMA involving small-value foreign bank accounts, shares, securities, or similar movable assets. However, it does not dilute disclosure obligations under the Act.

The proposed amendment is in line with the policy shift towards rationalization and proportionality, addressing long-standing concerns raised by professionals regarding harsh prosecution provisions even for low-value, un intentional defaults.

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India–Bangladesh Elephant Conservation Cooperation

India and Bangladesh reaffirm their commitment to transboundary elephant conservation, strengthening ecological cooperation and advancing shared biodiversity goals.

Indirect Tax

GST

Credit Note – Post-supply Discount

Under the existing framework of section 15(3)(b) of the Central Goods & Services Tax Act 2017 ('CGST Act, 2017'), post-supply discounts could be excluded from the value of supply only if all prescribed conditions were satisfied.

- The discount was required to be agreed at or before the time of supply.
- The discount had to be specifically linked to relevant invoices.
- The recipient was required to reverse proportionate input tax credit (ITC).

Although section 34 of the CGST Act, 2017 permitted issuance of credit notes (including consolidated credit notes), the restrictive conditions u/s 15(3)(b) led to practical challenges in recognising post-supply commercial adjustments where prior agreement or invoice linkage was not demonstrable.

It is proposed to amend section 15(3)(b) of the CGST Act, 2017 to provide that post-supply discount shall be permitted where-

- A credit note is issued by the supplier,
- ITC attributable to such discount is reversed by the recipient, and
- is in accordance with section 34 of the CGST Act, 2017.

Simultaneously, it is proposed to amend section 34(1) of the CGST Act, 2017 to explicitly include discounts referred to in section 15(3)(b) as a valid ground for issuance of credit notes.

Key Impact

- The requirement of pre-supply agreement for post-supply discount stands removed.
- The mandatory invoice-wise linkage condition u/s 15 is dispensed with.
- Statutory recognition is provided for post-supply commercial discounts through the mechanism of credit notes, subject to ITC reversal.

Impact of this amendment

- Credit notes issued towards discounts must satisfy the revised conditions of section 15(3)(b) of the CGST Act, 2017.
- Section 34 of the CGST Act, 2017 now operates in express alignment with section 15, and cannot independently reduce tax liability without fulfilment of ITC reversal conditions.
- Since section 34 permits issuance of consolidated credit notes, such credit notes are now valid for post-supply discounts, provided the proportionate ITC is reversed by the recipient.
- The amendment formalises prevailing trade practices by permitting post-supply commercial discounts without prior contractual stipulation or invoice-level correlation. Reduction in taxable value is now legally permissible through credit notes issued u/s 34 of the CGST Act, 2017, with reversal of proportionate ITC by the recipient being the essential compliance requirement.

Refund – Inverted Duty Structure

Under the existing provisions of section 54(6) of the CGST Act, 2017, provisional refund up to 90% of the claimed amount was primarily available in respect of refunds arising from zero-rated supplies, including exports and supplies to SEZ units/developers.

Refund claims relating to unutilised input tax credit on account of inverted duty structure u/s 54(3)(ii) of the CGST Act, 2017 were not expressly covered for provisional sanction, leading to delays in realisation of refund and consequent working capital strain.

It is proposed to amend section 54(6) to extend the scope of provisional refund to include refund of unutilised input tax credit claimed u/s 54(3)(ii) (inverted duty structure cases)

Impact of this amendment

- Taxpayers claiming refund due to inverted duty structure become eligible for provisional refund up to 90% of the claim.
- The amendment reduces working capital blockage, especially in sectors with higher input tax rates than output tax rates.
- Refund processing framework for inverted duty structure is brought closer to the treatment available for export-related refunds.
- The amendment ensures parity in refund treatment by allowing provisional sanction of refund in inverted duty structure cases, thereby improving liquidity and expediting the refund cycle.

Refund – Export of Goods with Payment

Under section 54(14) of the CGST Act, 2017, refund under sub-sections (5) and (6) was not admissible where the refund amount was below INR 1,000, irrespective of the category of refund. This restriction affected exporters who chose the "export with payment of tax" route and claimed refund of IGST paid on exports.

It is proposed to amend section 54(14) to specifically provide that the INR 1,000 minimum threshold shall not apply in cases where refund is claimed on account of export of goods out of India with payment of tax.

Impact of this amendment

- Exporters paying IGST on exports can now claim refund irrespective of the refund amount, even if it is below INR 1,000.
- Reinforces the zero-rated nature of exports, ensuring full tax neutrality.
- Particularly beneficial for small consignments and occasional exporters using the tax-paid export route.

Litigation

Under section 101A of the CGST Act, 2017, the Central Government is required to constitute the National Appellate Authority for Advance Ruling (NAAAR) to hear appeals u/s 101B of the CGST Act, 2017, particularly in cases of conflicting advance rulings issued by different State Appellate Authorities. However, in the absence of constitution of the NAAAR, such appellate remedy has remained practically unavailable.

It is proposed to insert sub-section (1A) in section 101A of the CGST Act, 2017, empowering the Government, on the recommendations of the Council, to notify an existing authority constituted under any other law or a tribunal to hear appeals u/s 101B of the CGST Act, 2017 until NAAAR is constituted. The amendment further provides that the procedural provisions relating to composition, qualifications, appointment and related matters contained in sub-sections (2) to (13) of section 101A shall not apply to such notified authority, and any reference to the NAAAR in this Chapter shall be construed as a reference to the empowered authority

Impact of this amendment

- Ensures that appeals in cases of conflicting advance rulings can be heard without awaiting formal constitution of the NAAAR.
- Provides for a functional interim appellate forum, ensuring continuity of adjudicatory mechanism.
- The interim authority operates outside the structural requirements prescribed for the NAAAR u/s 101A (2) to (13).
- The amendment operationalises an interim appellate framework for resolving inter-state advance ruling conflicts, thereby addressing a long-standing procedural gap and strengthening certainty in the advance ruling system.

Intermediary Services

Under section 13(8)(b) of the Integrated Goods & Services Tax Act 2017 ('IGST Act, 2017'), the place of supply of intermediary services was deemed to be the location of the supplier. Consequently, services provided by Indian intermediaries to overseas clients were treated as supplied in India and remained taxable, preventing such transactions from qualifying as exports

It is proposed to omit clause (b) of section 13(8) of the IGST Act, 2017. Post omission, the intermediary services will no longer have a specific place of supply rule. The place of supply shall instead be determined under the default rule in section 13(2) of the IGST Act, 2017, i.e. the location of the recipient of services.

Impact of this amendment

- Services supplied by Indian intermediaries to foreign recipients can now have the place of supply outside India, enabling such transactions to qualify as export of services, subject to fulfilment of other export conditions.
- Eligible intermediary service providers can avail zero-rating benefits, including refund of input tax credit, thereby improving global competitiveness.
- Intermediary services received by Indian recipients from foreign suppliers will have the place of supply in India, attracting tax under the reverse charge mechanism.

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India-Gulf Cooperation Council

India and GCC nations negotiate the Free Trade Agreement Terms of Reference, highlighting bilateral cooperation in trade, energy, and strategic sectors that strengthen economic ties between the regions.

Central Excise Act

Duty Exemption of Blended CNG Containing Compressed Bio-Gas (CBG)

Where Compressed Bio Gas (CBG) chargeable to GST @ 5% was blended with Compressed Natural Gas (CNG) chargeable to Central Excise, the GST paid on the CBG component was permitted as a set off/adjustment against the Central Excise duty payable on the blended CNG. This benefit operated through Notification No. 05/2023–Central Excise dated February 01, 2023, which effectively exempted Central Excise duty to the extent of GST paid on the CBG portion contained in the blended CNG.

It is now proposed that the value of Biogas / Compressed Biogas (CBG) and the applicable GST (Central, State, UT or IGST) paid on such CBG contained in blended CNG shall be excluded from the transaction value for the purpose of computing Central Excise duty on the blended CNG. This is being effected by amending Notification No. 11/2017–Central Excise through Notification No. 02/2026–Central Excise dated February 01, 2026, with effect from February 02, 2026. Consequently, Notification No. 05/2023–Central Excise (which earlier exempted excise duty only to the extent of GST paid on CBG) is being rescinded.

The proposal changes the mechanism of relief. Instead of allowing a setoff of GST paid on CBG against excise duty, the new approach removes the CBG value and the associated GST entirely from the assessable value for Central Excise. This structurally shifts the benefit from a post valuation setoff system to a pre valuation exclusion mechanism, ensuring that excise duty is levied only on the CNG portion (petroleum gas) and not on the CBG (non-petroleum gas) component. The rescinding of Notification No. 05/2023–CE aligns the valuation framework with this new approach and avoids double benefit or overlap.

Additional duty on unblended diesel (w.e.f. February 2, 2026)

Additional excise duty of Rs 2 per litre has been levied, Now, time limit of it has been extended till March 31, 2028

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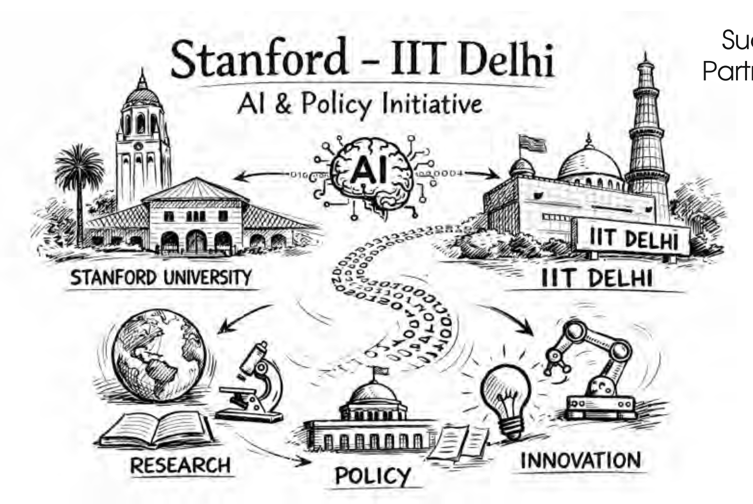

Stanford–IIT Delhi AI & Policy Initiative

Academic collaboration between Stanford University and the Indian Institute of Technology Delhi focused on artificial intelligence research, policy framework development, and technological innovation, addressing ethical AI governance, regulatory challenges, societal impacts, and responsible deployment of machine learning systems while fostering interdisciplinary knowledge exchange to shape AI policies that balance innovation with public interest and human-centric values.

Customs Act

Expansion of Jurisdiction

Amendment is proposed to sub section (2) to Section 1 of the Customs Act, 1962, to extend the jurisdiction beyond the territorial waters of India for the purpose of fishing and fishing related activities by Indian-flagged fishing vessels beyond territorial waters of India.

Indian-flagged fishing vessels

Insertion of a new definition by subsection (28A) to Section 2 of the Customs Act, 1962 that defined Indian-flagged fishing vessels as a vessel which is used or intended to be used for the purpose of fishing in the seas and entitled to fly the flag of India.

Introduction of Fishing & Fishing related Activities

Section 56A of the Customs Act, 1962, has proposed to introduce the special provisions for fishing & its related activities beyond the territorial waters of India.

No duty payable shall be paid on the fish harvested outside India and brought into India and the fish directly landed to the foreign port shall be qualified as an Export.

Detailed rules, regulations, and procedures for conducting provisions shall be notified separately.

Deferred payment of Duty (w.e.f. March 01, 2026)

Proposed to insert a new class of eligible importers as 'Eligible Manufacturer Importers' to enable for availing benefit of duty deferment u/s 47 of the Customs Act, 1962.

A revised time limit is proposed for duty deferment:

Period	Existing	Proposed
From April to February	15 days	1st day of the following month
For March	15 days	On 31st day of March

The shift to a monthly deferred duty payment and inclusion of eligible manufacturer importers will significantly improve cash-flow management.

Validity of Advance Rulings

Under the existing provisions of section 28J (2) of the Customs Act, an advance ruling remained valid for three years, or until there was a change in law or facts, whichever occurred earlier. Further, advance rulings already in force when the Finance Bill, 2022 received Presidential assent, the three-year validity period was to be computed from the date of such assent, by virtue of the proviso introduced in 2022. This framework ensured continuity but provided only a limited three-year certainty to applicants.

It is proposed to enhance the validity of advance rulings by substituting the words "three years" with "five years" in section 28J (2). Additionally, the earlier proviso is proposed to be replaced to provide that any advance ruling in force on the date of Presidential assent to the Bill may, upon a request by the applicant, be extended for a period of five years from the date of the ruling. This extension, like the primary validity period, remains subject to no change in law or facts.

This amendment increases certainty for importers and businesses by giving a longer 5year validity window. Unlike the 2022 change (which automatically reset the period), the new system requires the taxpayer to apply for extension for older rulings. The ruling will remain valid as long as no change occurs in the law or facts on which it was based.

Removal of Warehoused Goods Between Warehouses

Earlier, Section 67 of the Customs Act required that the owner of warehoused goods could remove the goods from one warehouse to another only with the prior permission of the proper officer. Such removal was further subject to prescribed conditions.

It is now proposed to substitute Section 67 to allow the owner of warehoused goods to remove them from one warehouse to another without requiring prior permission of the proper officer, subject only to such conditions as may be prescribed.

The amendment simplifies the process of shifting goods between customs bonded warehouses by eliminating the need for prior office approval, thereby reducing procedural delays subject to certain conditions.

Baggage Regulations

Baggage Declaration

Presently, the Customs Baggage Declaration Regulations, 2013, the Baggage (Transit to Customs Stations) Regulations, 1967 and the Passenger's Baggage (Levy of Fees) Regulations, 1966 have prevailed for the baggage declaration.

Effective February 2, 2026, all aforesaid rules are being superseded by the Customs Baggage (Declaration and Processing) Regulations 2026.

This rule will facilitate consolidating all baggage-related procedural provisions into a single, comprehensive, and facilitative framework.

Baggage Provisions

Customs Baggage Rules, 2016 are framed to regulate the movement of baggage across Indian customs frontiers, providing a framework for declaration, assessment, clearance, and examination of baggage.

Effective February 2, 2026, these rules are being superseded by the Baggage Rules, 2026 to satisfy the objectives below:

- Rationalize baggage provisions while addressing passenger-related concerns at airports and resolving interpretational ambiguities.
- Provide clarity on the temporary carriage of goods brought into or taken out of India, to prevent unnecessary detention of goods.
- Restructure Transfer of Residence (ToR) benefits for Indian residents and foreign professionals, based on the duration of their stay.

Measures of Ease of Doing Business

Single and interconnected digital window for cargo clearance approvals

The Bill provides the statutory backing for this reform through amendments enabling automated processing, electronic exchange of information and system-driven clearances under the Customs Act, 1962. A single digital window for approvals from partner government agencies is also proposed, with phased implementation for food, drugs, plant, animal and wildlife consignments by April 2026.

Introduction of Customs Integrated System (CIS)

The Union Budget 2026–27 proposes the rollout of a Customs Integrated System (CIS) as a single, unified digital platform for all customs processes, aimed at faster, transparent and trust-based import clearances.

Shift from "Penalty" to "Charge"

The Bill proposes an important amendment to Section 28(6) of the Customs Act, 1962, whereby the amount payable u/s 28(5), upon determination of duty liability, shall no longer be characterized as a penalty but shall instead be deemed to be a "charge".

This recharacterization marks a significant shift towards a taxpayer friendly and non adversarial framework, particularly for importers seeking voluntary and early dispute resolution. The change aims to achieve the broader Budget 2026 objective of trust based compliance and ease of doing business.

Extension of Duty Exemption Coverage and Export Time Limit

Duty exemption on specified inputs is proposed to be extended to exporters of shoe-uppers and the time period for export of value-added products manufactured from such inputs is extended from six months to twelve months for leather/synthetic footwear and shoe-uppers.

Notification No. 45/2025-Customs provides conditional customs duty exemption on specified imported inputs used in the manufacture of export goods. Earlier, the export time limit was six months, and the benefit was limited only to leather and synthetic footwear. The amendment widens the scope of the notification by extending the benefit to shoe-uppers and increasing the export time limit to twelve months, thereby easing compliance and supporting the footwear export ecosystem, including ancillary manufacturers.

Authorised Economic Operators

The present Duty Deferral period of 15 days for Tier 2 and Tier 3 Authorised Economic Operators (AEOs) is proposed to increase to 30 days to aim at easing cash flow for trusted trade partners and further strengthening the Government's trust based customs compliance framework.

Special Economic Zone (SEZ)

One time concessional DTA sale for SEZ units proposed. SEZ units presently are required to pay full customs duties on DTA clearances u/s 30 of the SEZ Act, 2005, are proposed to be allowed one time DTA sales at concessional duty rates, subject to specified limit linked to previous export performance. The measure seeks to bring SEZ units at par with EOUs.

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INDIA BUDGET 2026

India–US Chip and Science Partnership (2023-2024)

US Commerce Secretary Gina Raimondo and India's Commerce and Industry Minister Piyush Goyal mark the India–US semiconductor manufacturing partnership under the US CHIPS and Science Act.

References- Indirect Tax

Changes in Customs Tariff Act, 1975

Changes in Tariff rate under the Customs Tariff Act, 1975

A	Modification in Tariff rate (to be effective from February 02, 2026)	Increase in Duty	
#	Particulars	From	To
1	Umbrellas (other than garden umbrellas)	20.00%	20% or INR 60 per piece, whichever is higher
2	Parts, trimmings and accessories of articles of heading 6601 to 6602	10.00%	10% or INR 25 per kg., whichever is higher

B	Decrease in Tariff rate (to be effective from April 1, 2026)	Decrease in Duty	
#	Particulars	From	To
1	All dutiable goods, imported for personal use	20.00%	10.00%

C	Tariff rate changes (without any change in effective rate of duty) [to be effective from May 01, 2026, unless otherwise specified]	Decrease in Duty	
#	Particulars	From	To
1	Meat and edible offal of turkeys, frozen	30.00%	5.00%
2	Artemia	5.00%	Nil
3	Artemia cysts	5.00%	Nil
4	Almonds, in shell	INR 42 per kg	INR 35 per kg
5	Almonds, shelled	INR120 per kg	INR 100 per kg
6	Walnuts, in shell	120.00%	100.00%
7	Seeds, fruit and spores, of a kind used for sowing	30.00%	15.00%
8	Wool grease and fatty substances derived there from (including lanolin)	30.00%	15.00%
9	Makhana, other roasted nuts and seeds	150.00%	30.00%
10	Other nuts, otherwise prepared or preserved	150.00%	30.00%
11	Prawn and shrimps feed	15.00%	5.00%
12	Natural graphite	5.00%	2.50%

C	Tariff rate changes (without any change in effective rate of duty) [to be effective from May 01, 2026, unless otherwise specified]	Decrease in Duty	
#	Particulars	From	To
13	Natural sands of all kinds, whether or not coloured, other than metal bearing sands of chapter 26 of the Customs Tariff Act, 1975	5.00%	Nil
14	Quartz (other than natural sands); quartzite, whether or not roughly trimmed or merely cut, by sawing or otherwise, into blocks or slabs of a rectangular (including square) shape	5.00%	2.50%
15	Strontium sulphate (natural ore)	5.00%	Nil
16	Coal; briquettes and similar solid fuels manufactured from coal; Lignite, whether or not agglomerated, excluding jet; Peat (including peat litter), whether or not agglomerated	5.00%	2.50%
17	Petroleum Crude	5.00%	Re. 1 per tonne
18	Tellurium	5.00%	Nil
19	Silicon, containing by weight not less than 99.99% of silicon	5.00%	Nil
20	Silicon, other	5.00%	Nil
21	Selenium	5.00%	Nil
22	Rare-earth metals, scandium and yttrium, whether or not intermixed or inter alloyed	5.00%	Nil
23	Phosphorus Acid	7.50%	5.00%
24	Silicon dioxide	7.50%	2.50%
25	Oxides, hydroxides and peroxides, of strontium or barium	7.50%	Nil
26	Cobalt oxides	7.50%	Nil
27	Cobalt hydroxides	7.50%	Nil
28	Commercial cobalt oxides	7.50%	Nil
29	Lithium oxide and hydroxide	7.50%	Nil
30	Vanadium oxides and hydroxides	7.50%	Nil
31	Germanium oxides	7.50%	Nil
32	Molybdenum oxides and hydroxides	7.50%	Nil
33	Antimony Oxides	7.50%	Nil
34	Cadmium oxide	7.50%	Nil
35	Chlorides of Nickel	7.50%	Nil
36	Strontium chloride	7.50%	Nil

C	Tariff rate changes (without any change in effective rate of duty) [to be effective from May 01, 2026, unless otherwise specified]	Decrease in Duty	
#	Particulars	From	To
37	Sulphates of Nickel	7.50%	Nil
38	Nitrates of potassium	7.50%	Nil
39	Lithium carbonates	7.50%	Nil
40	Strontium carbonate	7.50%	Nil
41	Methyloxirane (propylene oxide)	5.00%	2.50%
42	Bismuth citrate	7.50%	5.00%
43	Ammonium nitrate, whether or not in aqueous solution	10.00%	5.00%
44	Artificial Graphite; colloidal or semi-colloidal graphite; preparations based on graphite or other carbon in form of pastes, blocks, plates or other semi-manufactures	7.50%	2.50%
45	Gibberellic acid	10.00%	5.00%
46	Polymers of vinyl chloride or of other halogenated olefins, in primary form	10.00%	7.50%
47	Plans and drawings for architectural, engineering, industrial, commercial, topographical or similar purposes, being originals drawn by hand; hand-written texts; photographic reproductions on sensitised paper and carbon copies of the foregoing	10.00%	Nil
48	Other cotton of staple length exceeding 32.0 mm	5.00%	Nil
49	Ferronickel	2.50%	Nil
50	Blister copper	5.00%	Nil
51	Lead waste and scrap	5.00%	Nil
52	Zinc waste and scrap	5.00%	Nil
53	Cobalt powders	5.00%	Nil
54	Reactors, columns or towers or chemical storage tanks	10.00%	7.50%

Introduce new tariff items under the Customs Tariff Act, 1975 (effective May 01, 2026)

#	Particulars	HSN	Rate
1	Krill, frozen	0306 19 10	15.00%
2	Pecan Nuts	0802 99 10	30.00%
3	Cranberries, fresh	0810 40 10	10.00%
4	Blueberries, fresh	0810 40 20	10.00%

#	Particulars	HSN	Rate
5	Cranberries, frozen	0811 90 11 0811 90 91	10.00%
6	Blueberries, frozen	0811 90 12 0811 90 92	10.00%
7	Cranberries, dried	0813 40 30	10.00%
8	Blueberries, dried	0813 4040	10.00%
9	Shea Nuts	1207 99 50	15.00%
10	Cranberries, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included	2008 93 10	5.00%
11	Blueberries, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included	2008 99 15	10.00%
12	Other than compound alcoholic preparations of a kind used for manufacture of beverages, of an alcoholic strength by volume exceeding 0.5% vol., determined at 20 degrees centigrade	2106 90 (other than 21069051)	50.00%
13	Cranberry products	2202 9921, 2202 99 31, 2202 9991	10.00%
14	Cranberry products	2202 9921, 2202 99 31, 2202 9991	10.00%
15	Acid grade fluorspar containing by weight more than 97% of calcium fluoride	2529 22 10	2.50%
16	Hafnium ores and concentrates	2615 10 10	Nil
17	Ammonium metavanadate	2841 90 10	2.50%
18	Gibberellic acid	2932 2040	5.00%
19	Triethyl orthoformate	2915 9096	5.00%
20	Diethyl malonate	2917 1922	5.00%
21	DL-2 Amino butanol	2922 19 30	5.00%
22	Aceto butyrolactone	293220 50	5.00%
23	Artemisinin	2932 99 30	5.00%
24	Thymidine	2934 99 50	5.00%

#	Particulars	HSN	Rate
25	Mixtures of odoriferous substances of a kind used in food or drink industries other than compound alcoholic preparations of a kind used for manufacture of beverages, of an alcoholic strength by volume exceeding 0.5% vol., determined at 20 degrees centigrade	3302 10 19, 3302 1099	10.00%
26	Wet blue leather (hides and skin)	4104 11 10, 4104 19 10, 4105 10 10 410621 10, 410631 10, 4106 91 10	Nil
27	Rayon grade wood pulp	4702 00 10	2.50%
28	All goods other than kites	4823 9090 (kites fall under new tariff item 4823 9040)	10.00%
29	Tungsten (wolfram) bars and rods, other than those obtained simply by sintering, profiles, plates, sheets, strip and foil	8101 9920	5.00%
30	All goods other than indoor or outdoor units of split-system air conditioner	8415 9090	10.00%
31	All goods other than Reverse Osmosis (RO) membrane element for household type filters	8421 99 90	7.50%
32	Battery separators	8507 9020	5.00%
33	Parts suitable for use solely or principally with the apparatus of headings 8525, 8526 or 8527	8529 10 93, 8529 90 30	10.00%
34	Refrigerated containers	8609 00 10	5.00%

Changes in Basic Customs Duty under the Customs Act, 1962

A	Modification in basic Customs Duty rate (to be effective from February 02, 2026)	Decrease in Duty	
#	Particulars	From	To
1	Monazite	2.50%	Nil
2	Sodium antimonate for use in manufacture of solar glass	7.50%	Nil
3	All goods for generation of nuclear power	7.50%	Nil
4	Control and Protector Absorber Rods, and Burnable Absorber Rods, for generation of nuclear power	7.50%	Nil
5	Specified goods for use in the manufacture of Microwave Ovens falling under tariff item 8516 50 00	As applicable	Nil
A	**Modification in basic Customs Duty rate (to be effective from February 02, 2026)**	**Increase in Duty**	
#	**Particulars**	**From**	**To**
1	Potassium hydroxide	Nil	7.50%

Introduce new tariff items under the Customs Tariff Act, 1975 (effective May 01, 2026)

#	Particulars	Date of Omission
1	Ethylene vinyl acetate (EVA)	February 02, 2026
2	New Pneumatic tyres, of rubber, of a kind used on aircrafts (other than goods covered under SL, Nos. 155 and 156 of the notification No. 45/2025-Customs)	February 02, 2026
3	Other screws and bolts, nuts and other non-threaded articles falling under tariff items 7318 15 00,	February 02, 2026

Extension is proposed for the exemptions and concessional Basic Customs Duty rates prescribed under Notification No. 45/2025-Customes

#	Particulars	Extended Date
1	Meat and edible offal of ducks, frozen	March 31, 2028
2	Planting materials, namely, oil seeds, seeds of vegetables, flowers and ornamental plants, tubers and bulbs of flowers, cuttings or saplings of flower plants, seeds or plants of fruits and seeds of pulses	March 31, 2028
3	Algal oil for manufacturing of aquatic feed	March 31, 2028

#	Particulars	Extended Date
4	Lactose for use in the manufacture of homeopathic medicine	March 31, 2028
5	Specified goods used in the processing of seafood	March 31, 2028
6	Gold ores and concentrates for use in the manufacture of gold	March 31, 2028
7	Specified bunker fuels for use in ships or vessels	March 31, 2028
8	Electrical energy supplied to DTA by power plants of 1000MW or above, and granted formal approval for setting up in SEZ prior to 19th July, 2012	March 31, 2028
9	Electrical energy supplied to DTA from power plants of less than 1000MW, and granted formal approval for setting up in SEZ prior to 19th July, 2012	March 31, 2028
10	Medical use fission Molybdenum-99 (Mo-99) for use in the manufacture of radio pharmaceuticals	March 31, 2028
11	Pharmaceutical Reference Standard	March 31, 2028
12	Specified goods used for the manufacture of ELISA Kits	March 31, 2028
13	Anthraquinone or 2-Ethyl Anthraquinone, for use in manufacture of Hydrogen Peroxide	March 31, 2028
14	Specified goods for use in the manufacture of sheets or back sheet, which are used in the manufacture of solar photovoltaic cells or modules [The entry has been modified]	March 31, 2028
15	Specified goods for use in the manufacture of Brushless Direct Current (BLDC) motors	March 31, 2028
16	Tags, labels, stickers, belts etc. imported by bona fide exporters	March 31, 2028
17	Specified goods imported by bona fide exporters for use in the manufacture of handicraft items, for export	March 31, 2028
18	Specified goods imported by bona fide exporters for use in the manufacture of textile or leather garments, for export	March 31, 2028
19	Specified goods imported by bona fide exporters for use in the manufacture of leather or synthetic footwear, or other leather products, for export [The entry has been modified]	March 31, 2028
20	Specified goods for the manufacture of orthopaedic implants or other artificial parts of the body	March 31, 2028
21	Capacitor grades polypropylene granules or resins for the manufacture of capacitor grade plastic film	March 31, 2028
22	Super absorbent polymer (SAP) imported for use in the manufacture of specified goods	March 31, 2028
23	Polytetra methylene ether glycol (PT MEG) for use in the manufacture of spandex yarn	March 31, 2028

#	Particulars	Extended Date
24	New or rethreaded Pneumatic tyres of rubber of a kind used in aircrafts	March 31, 2028
25	New or rethreaded Pneumatic tyres of rubber of a kind used in aircrafts	March 31, 2028
26	Pulp of wood or of other fibrous cellulosic material for the manufacture of newsprint, paper and paperboard, adult diapers, and goods falling under heading 9619	March 31, 2028
27	All goods imported for use in manufacture of paper, paperboard, or newsprint	March 31, 2028
28	Specified goods used in the printing of newspapers	March 31, 2028
29	Lightweight coated paper weighing up to 70g/m2, imported by actual users for printing of magazines	March 31, 2028
30	Pile fabrics for the manufacture of toys	March 31, 2028
31	Moulds, tools and dies, for the manufacture of parts of electronic components or electronic equipment	March 31, 2028
32	Graphite Felt for growing silicon ingots, and thin steel wire used in wire saw for slicing of silicon wafers	March 31, 2028
33	Simply Sawn Diamonds	March 31, 2028
34	Seeds for use in manufacturing of rough lab-grown diamonds	March 31, 2028
35	Ferrous Scrap	March 31, 2028
36	Magnesium Oxide (MgO) coated cold rolled steel coils for use in manufacture of cold rolled grain oriented steel (CRGO).	March 31, 2028
37	Specified goods for the manufacture of cold rolled grain-oriented steel	March 31, 2028
38	Forged steel rings for manufacture of special bearings for use in wind operated electricity generators [The entry is being merged with Sl. No. 230 in TABLE I of notification No. 45/2025-Customs dated 24.10.2025.]	March 31, 2028
39	Copper wire of refined copper or copper rod for manufacture of photovoltaic ribbon for solar photovoltaic cell or modules [The entry has been modified]	March 31, 2028
40	Dies for drawing metal, when imported after repairs from abroad, in exchange of similar worn-out dies exported out of India for repairs	March 31, 2028
41	Parts and raw materials for manufacture of goods to be supplied in connection with the purposes of offshore oil exploration or exploitation	March 31, 2028

#	Particulars	Extended Date
42	Specified goods when imported by a specified person, in relation with various petroleum operations or coal bed methane operations	March 31, 2028
43	Goods for manufacture or the maintenance of wind operated electricity generator components. [The entry has been modified after merger of entry S. No. 220 in TABLE I of notification No. 45/2025- Customs]	March 31, 2028
44	Parts of catalytic converters and goods for use in the manufacture of catalytic convertors or its parts	March 31, 2028
45	Platinum or Palladium for use in the manufacture of Noble Metal Compounds and Noble Metal Solutions	March 31, 2028
46	Ceria zirconia compounds for use in the manufacture of wash coat for catalytic converters	March 31, 2028
47	Cerium compounds for use in the manufacture of wash coat for catalytic converters	March 31, 2028
48	Machinery, electrical equipment, other instruments and their parts except populated PCBs for use in fabrication of semiconductor wafer and Liquid Crystal Display	March 31, 2028
49	Machinery, electrical equipment, other instruments and their parts except populated PCBs for use in assembly, testing, marking and packaging of semiconductor chips	March 31, 2028
50	Specified goods for the manufacture of certain goods and their parts	March 31, 2028
51	Bushings made of Platinum and Rhodium alloy when imported in exchange of worn out or damaged bushings exported out of India	March 31, 2028
52	Parts and components for manufacture of tunne boring machines	March 31, 2028
53	Evacuated tubes with three layers of solar selective coating foruse in the manufacture of solar water heater and system	March 31, 2028
54	Ball screws for use in the manufacture of CNC Lathes	March 31, 2028
55	Linear Motion Guides for use in the manufacture of CNC Lathes	March 31, 2028
56	CNC Systems for use in manufacture of CNCL lathes	March 31, 2028
57	Certain goods for use in manufacture of plastic processing machineries	March 31, 2028

#	Particulars	Extended Date
58	Parts and components for use in the manufacture of goods like Micro ATMs, Fingerprint reader/scanner, Iris scanner, miniaturized POS card reader	March 31, 2028
59	All parts for use in the manufacture of LED lights or fixtures including LED Lamps	March 31, 2028
60	All inputs for use in the manufacture of LED (Light Emitting Diode) driver or Metal Core Printed Circuit Board for LED lights and fixtures or LED lamps	March 31, 2028
61	Goods imported for being tested in specified test centres	March 31, 2028
62	Specified goods for use in the manufacturing of Microphones	March 31, 2028
63	(i) Parts, components and accessories for manufacture of Digital Video Recorder (DVR)/Network Video Recorder (NVR) falling under 8521 90 90, other than the following items, namely (a) populated printed circuit boards; (b) charger or power adapter; (ii) Sub-parts for use in manufacture of items mentioned at (I) above [Only clause (ii) is being continued while clause (I) is being allowed to lapse on the end-date of 31st March, 2026]	March 31, 2028
64	Parts, components and accessories for use in manufacture of reception apparatus for television	March 31, 2028
65	Parts, components and accessories for manufacture of CCTV Camera	March 31, 2028
66	Parts, components and accessories except Lithium-ion cell and PCBA for use in manufacture of Lithium- ion battery and battery pack	March 31, 2028
67	Inputs, parts or sub-parts for use in the manufacturing of PCBA of Lithium-ion battery and battery pack	March 31, 2028
68	Open cell for use in the manufacture of LCD and LED TV panels	March 31, 2028
69	Specified goods for use in the manufacture of LCD and LED TV panels	March 31, 2028
70	Magnetron of up to 1.5 KW used for the manufacture of domestic microwave ovens	March 31, 2028
71	Parts, sub-parts, inputs or raw material for use in manufacture of Lithium-ion cells	March 31, 2028
72	Lithium-ion cell for use in manufacture of battery or battery pack other than for cellular phone or EV	March 31, 2028

#	Particulars	Extended Date
73	Lithium-ion cell for use in the manufacture of battery or battery pack of cellular mobile phone	March 31, 2028
74	Lithium-ion cell for use in the manufacture of battery or battery pack of EV or hybrid motor vehicle	March 31, 2028
75	Parts of gliders or simulators of aircrafts (excluding rubber tyres and tubes of gliders)	March 31, 2028
76	Raw materials for manufacture of aircrafts and parts of aircrafts	March 31, 2028
77	Components or parts including engines, of aircraft for manufacture of air craft	March 31, 2028
78	Parts, testing equipment, tools and tool-kits for MRO of aircraft, components or parts of aircraft	March 31, 2028
79	Other Aircrafts	March 31, 2028
80	Components or parts, including engines, of aircraft	March 31, 2028
81	Satellites and payloads, ground equipment brought for testing and ground installations for satellite including its spares and consumables	March 31, 2028
82	Scientific and technical instruments, apparatus, equipment etc., required for launch vehicles and satellites and payloads	March 31, 2028
83	All goods under heading 8802 (except CTH 8802 60 00)	March 31, 2028
84	All goods under heading 8802 (except CTH 8802 60 00)	March 31, 2028
85	All goods under heading 8802 (except CTH 8802 60 00)	March 31, 2028
86	Parts (other than rubber tubes), of aircraft of heading 8802	March 31, 2028
87	Parts (other than rubber tubes), of aircraft of heading 8802	March 31, 2028
88	Barges or pontoons imported along with ships for the more speedy unloading of imported goods and loading of export goods	March 31, 2028
89	Fishing vessels, tugs and pusher crafts, light vessels, excluding vessels and other floating structures as are imported for breaking up	March 31, 2028
90	Stainless steel tube and wire, cobalt chromium tube, etc. required for manufacture of Coronary stents/coronary stent system and artificial heart valve	March 31, 2028
91	Ostomy products for managing Colostomy, Ileostomy, Ureterostomy, Ileal Conduit Urostomy Stoma cases	March 31, 2028
92	Medical and surgical instruments, apparatus and appliances including spare parts and accessories thereof	March 31, 2028

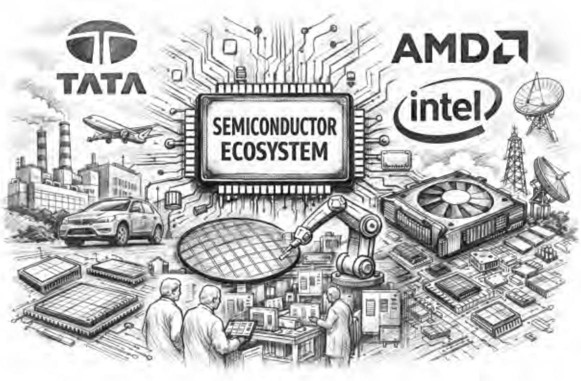
#	Particulars	Extended Date
93	Hospital Equipment for use in specified hospitals	March 31, 2028
94	Raw materials, parts or accessories for the manufacture of Cochlear Implants	March 31, 2028
95	X-Ray Baggage Inspection Systems and parts thereof	March 31, 2028
96	Portable X-ray machine/system	March 31, 2028
97	Parts and cases of braille watches, for the manufacture of Braille watches	March 31, 2028
98	Parts of electronic toys for manufacture of electronic toys	March 31, 2028
99	All items of machinery, and auxiliary equipment required for initial setting up of a project for generation of power or generation of compressed bio- gas (Bio-CNG) using non-conventional materials	March 31, 2028
100	All items of machinery, and auxiliary equipment for setting up of fuel cell-based system for generation of power or for demonstration purposes or balance of systems operating on biogas or bio-methane or by-product hydrogen	March 31, 2028
101	Security fibre, security threads, Paper Based Taggant, including M-feature, for use in the manufacture of security paper by Security Paper Mill, Osmanabad and Bank Note Paper Mill India Private Limited, Mysore	March 31, 2028
102	Raw materials for use in manufacture of security fibre and security threads for supply to Security Paper Mill, Osmanabad and Bank Note Paper Mill India Private Limited, Mysore for use in manufacture of security paper	March 31, 2028

Building Successful Partnerships

INDIA BUDGET 2026

Tata Group & AMD, Intel for Semiconductor Ecosystem

Strategic collaboration between Tata Group and global semiconductor leaders AMD and Intel to establish India's domestic chip manufacturing capabilities, encompassing semiconductor fabrication, assembly, testing, packaging operations, technology transfer, workforce development, and supply chain integration, positioning India as a key player in the global semiconductor ecosystem and advancing technological self-reliance.



Sunset clause on BCD exemption under Notification No. 45/2025-Customs dated October 24, 2025 is proposed to be removed.

#	Particulars	Effective date of removal
1	Parts suitable for use solely or principally with the apparatus of headings 8525, 8526 or 8527.	February 02, 2026
2	All goods (excluding vessels and other floating structures as are imported for breaking up) (CTH 8901)	February 02, 2026
3	All goods (excluding vessels and other floating structures as are imported for breaking up) (CTH 8906)	February 02, 2026
4	All goods (excluding vessels and other floating structures as are imported for breaking up) (CTH 8906)	February 02, 2026

Sunset clause for BCD exemption under Notification No. 45/2025-Customs, is being notified.

#	Particulars	Date of Notification
1	Gold dore bar, having gold content not exceeding 95%	March 31, 2027
2	Silver dore bar having silver content not exceeding 95%	March 31, 2027
3	(i) Gold bars, other than tola bars, bearing manufacturer's or refiner's engraved serial number and weight expressed in metric units, and gold coins having gold content not below 99.5%, imported by the eligible passenger (ii) Gold in any form other than (i), including tola bars and ornaments, but excluding ornaments studded with stones or pearls	March 31, 2027
4	Silver, in any form including ornaments, but excluding ornaments studded with stones or pearls, imported by the eligible passenger	March 31, 2027

Revision in National Calamity Contingent Duty (NCCD) rates (Effective 01 May 2026)

A	Modification in NCCD rate	Rate of Duty	
#	Particulars	From	To
1	Chewing tobacco	25%	60%
2	Jarda scented tobacco	25%	60%
3	Other	25%	60%

References- Direct Tax

Income Tax Rates* for FY 2026-27

**[To be increased by applicable surcharge and health & education cess (see Notes)]*

Individual, HUF, AOP & BOI

Default Tax regime# for all Individual, HUF, AOP & BOI
[Section 202 of the ITA 2025 (115BAC of ITA 1961)]

Taxable Income	Tax Rate
Upto 4,00,000	Nil
4,00,001 to 8,00,000	5%
8,00,001 to 12,00,000	10%
12,00,001 to 16,00,000	15%
16,00,001 to 20,00,000	20%
20,00,001 to 24,00,000	25%
24,00,001 and above	30%

Only specified exemptions or deductions are available under default tax regime.

Optional Tax regime* for Individual, HUF, AOP & BOI

Taxable Income (INR)	All Individual, HUF, AOP & BOI	Resident Senior Citizen (age of 60 years and above)	Resident Super Resident Senior Citizen (age of 80 years and above)
Upto 2,50,000	Nil	Nil	Nil
2,50,001 to 3,00,000	5%	Nil	Nil
3,00,001 to 5,00,000	5%	5%	Nil
5,00,001 to 10,00,000	20%	20%	20%
10,00,001 and above	30%	30%	30%

*This tax regime shall be applicable only by exercising the option prescribed u/s 202(4) of ITA 2025.

Partnership Firm & Foreign Company

Particulars	General Tax Rate
Partnership Firm & LLP	30%
Foreign Company	35%

Domestic Company

Particulars	Tax Rate
Domestic Company with Turnover / Gross Receipts up to INR 400 Crores in FY 2024-25	25%
Domestic Company opted for taxation u/s. 199 of ITA 2025 (115BA of ITA 1961)	25%
Domestic Company opted for taxation u/s. 200 of ITA 2025 (115BAA of ITA 1961)	22%
Domestic Company (incorporated on or after 1st October 2019 & commences manufacturing on or before 31st March 2024) & opted for taxation u/s. 201 of ITA 2025 (115BAB of ITA 1961)	
- Income derived from Manufacturing or Production	15%
- Other income for which no specific rate of tax is specified	22%
- Short-term capital gain on a non-depreciable capital asset	22%
Domestic Company not covered above	30%

Co-operative Society

Particulars	Tax Rate
Resident Co-operative Society opted for taxation u/s 203 of ITA 2025 (115BAD of ITA 1961)	22%
Resident Co-operative society (incorporated on or after 1st April 2023 2019 & commences manufacturing on or before 31st March 2024) & opted for taxation u/s. 204 of ITA 2025 (115BAE of ITA 1961)	
- Income derived from Manufacturing or Production	15%
- Other income for which no specific rate of tax is specified	22%
- Short-term capital gain on a non-depreciable capital asset	22%
Co-operative Society not covered above	
- Upto INR 10,000	10%
- INR 10,001 to 20,000	20%
- INR 20,001 and above	30%

Income Taxable at special rate

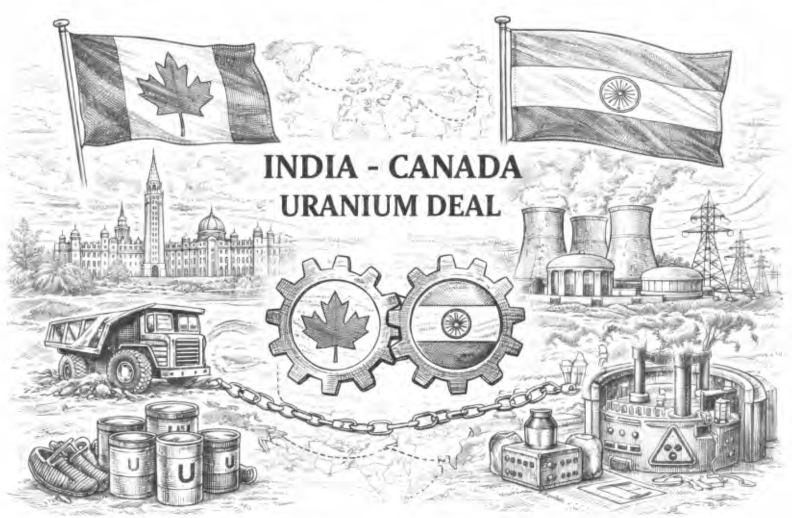
ITA 1961	ITA 2025	Nature of Income	Tax Rate
115JB	206	Minimum Alternate Tax	14%
115JC	206	Alternate Minimum Tax (1) If Co-operative society (2) If unit located in IFSC and derives income solely from convertible foreign exchange (3) If any other case	 15% 9% 18.5%
111A	196	STCG on STT paid equity shares, units of equity oriented mutual funds, or a business trust	20%
112A	198	LTCG on listed equity shares, units of equity oriented mutual funds, units of business trust exceeding INR 1,25,000	12.5%
115A	207 (2) Table Sr No.1&2	Royalty & Fees for Technical Services derived by Non-Resident or Foreign Company	20%
115A	207(1) Table Sr. No. 1	Dividend derived by non-resident (other than dividend received from a unit in an IFSC) subject to tax treaty benefit	20%
115AB	208 Table Sr No. 2	An Offshore Fund earning LTCG by way of transfer of units purchased in Foreign Currency	12.5%
115AC	209 Table Sr. No.3	LTCG earned by a Non-resident by way of transfer of specified Bonds or Global Depositary Receipts	12.5%
115ACA	193 Table Sr. No.2	LTCG earned by a specified resident employee on the income arising from transfer of specified Global Depositary Receipts	12.5%
115AD	210 Table Sr. No.3	STCG on income of Specified Fund or FII from transfer of securities referred to in Section 196 (similar to Section 111A of ITA 1961)	20%
	210 Table Sr. No.2	STCG on income from transfer of securities other than specified u/s 196	30%
	210 Table Sr. No.5	LTCG on income of Specified Fund or FII from transfer of securities referred to in Section 198 (similar to Section 112A of ITA 1961) in excess of INR 1,25,000	12.5%
	210 Table Sr. No.4	LTCG on income from transfer of securities other than specified u/s 198	12.5%

Income Taxable at special rate

ITA 1961	ITA 2025	Nature of Income	Tax Rate
115E	214	LTCG on income of a Non-Resident Indian:	
	Table Sr. No 1	- From Specified Asset	12.5%
	Table Sr. No.2	- From asset other than specified assets	20%
115BBF	194Table Sr. No.2	Income by way of Royalty in respect of a patent developed and registered in India derived by Resident	10%
115BBH	194Table Sr. No.4	Tax on Virtual Digital Assets	30%
115BBI	334	Tax on Specified Income of Trusts and certain Institutions	30%
115BBJ	194 Table Sr. No.5	Tax on winnings from Online games	30%

Building Successful Partnerships

INDIA BUDGET 2026



India-Canada Uranium Deal

Strategic civil nuclear cooperation agreement enabling Canada's supply of uranium to India for peaceful energy purposes, supporting India's nuclear power generation capacity and clean energy goals while strengthening bilateral ties in energy security, nuclear technology collaboration, and sustainable development between the two nations.

Note 1: Rate of Surcharge on Income Tax

Total Income	Upto INR 50 Lakhs	INR 50 Lakhs to INR 1 Cr.	INR 1 Cr. to INR 2 Cr.	INR 2 Cr. to INR 5 Cr.	INR 5 Cr. to INR10 Cr.	Above INR 10 Cr.
Individual/HUF/ AOP/BOI - tax regime u/s 202	Nil	10%	15%*	25%**	25%**	25%**
Individual/HUF/ AOP/BOI	Nil	10%	15%*	25%**	37%**	37%**
Co-operative Society	Nil	Nil	7%	7%	7%	12%
Co-operative Society opted for tax regime u/s 203 & 204	10%	10%	10%	10%	10%	10%
Partnership Firm/LLP	Nil	Nil	12%	12%	12%	12%
Foreign Company	Nil	Nil	2%	2%	2%	5%
Domestic Company (not opting for concessional taxation u/s 200 & 201)	Nil	Nil	7%	7%	7%	12%
Domestic Manufacturing Companies u/s 200 & 201	10%	10%	10%	10%	10%	10%

* In case of AOP, the applicable surcharge would be 15% where total income exceeds 1Cr in case all the members of AOP are companies.

** Further, the above rate of increased surcharge i.e. 25% and 37% shall not be applicable on tax payable on dividend and capital gains arising from transfer of certain securities u/s. 196, 197, 198 (i.e. similar to Section 111A, 112 and 112A of ITA 1961) for all classes of taxpayers.

Note 2: Health & Education Cess @ 4% will be charged to all assessee on the amount of Income Tax & Surcharge.

Note 3: In case where person is opting for concessional taxation u/s. 200/ 201/ 202/ 203 or 204, tax payable on capital gains arising will be at the rate specified in Section 196, 197 & 198 in respect of capital asset covered within the scope of these sections.

Note 4: A non-resident including foreign company can also avail of a lower rate of tax, if any, specified under applicable tax treaty subject to compliance with treaty access provision as provided under the Act.

TDS Rates for FY 2026-27 (See Notes)

ITA 1961	ITA 2025	Nature of Payment	Threshold Limit (INR)	Proposed Rate
192	392(1)	Salary	As per Slab	As per Slab
192A	392(7)	Provident Fund amount which is not exempt from tax	50,000	10%
193	393(1) [Table: Sr. No. 5(i)]	Interest on Securities	10,000	Rate in Force
194	393(1) [Table: Sr. No. 7], 393(4)[Table: Sr. No. 10]	Dividend (including deemed dividend) to Resident Individual by any mode other than cash	10,000	Rate in Force
	393(1)[Table: Sr. No. 7],	Dividend (including deemed dividend) to Residents – other than above	0	10%
194A	393(1)[Table: Sr. No. 5(ii) & 5(iii)], 393(4)[Table: Sr. No. 7]	(1) Interest paid by Banking Company, Co-operative Society/Banks engaged in banking business, Post Office under a deposit scheme framed by Central Government	50,000*	10%
		(2) Interest other than Interest on Securities (Other than above)	10,000	10%
		(3) Payment of interest on compensation amount awarded by Motor Accidents Claims Tribunal to a person other than individual	50000[7]	10%
194B	393(3) [Table: Sr. No.1]	Winning from Lotteries (Excluding Online Games)	10,000 per transaction	30%
194BA	393(3) [Table: Sr. No. 2]	Net Winning from any Online Games	0	30%
194BB	393(3)[Table: Sr. No. 3]	Winnings from Horse Races	10,000 per transaction	30%

ITA 1961	ITA 2025	Nature of Payment	Threshold Limit (INR)	Proposed Rate
194C	393(1)[Table: Sr. No. 6(i)], 393(4)[Table: Sr. No. 8]	Payments to Contractors including payment relating to supply of manpower		30%
		(a) Payment to Individual / HUF	30,000[6]	1%
		(b) Payment to Others (other than above)	30,000[6]	2%
		(c) Payment to contractor engaged in business of plying, hiring or leasing goods carriages[5]	NA	Nil
194D	393(1)[Table: Sr. No.1(i)]	Insurance Commission	20,000	2%
194DA	393(1)[Table: Sr. No. 8(i)]	Income component received from LIC (including ULIP) which are not covered under Schedule II(2) (Similar to section 10(10D))	1,00,000	2%
194E	393(2) [Table: Sr. No.1]	Non-Resident Sportsman /Sports Association / Entertainer	0	20%[1]
194EE	393(3) [Table: Sr. No. 6]	Payment of deposits under NSS to Resident / Non-Resident	2,500	10%[1]
194G	393(3) [Table: Sr. No. 4]	Commission on Sale of lottery tickets to Resident / Non- Resident	20,000	2%[1]
194H	393(1) [Table: Sr. No. 1(ii)]	Commission or Brokerage to Resident	20,000	2%
194I	393(1) [Table: Sr. No. 2(ii)]	Rent to Resident		2%
		(a) Rent for machinery/plant/ equipment	50,000 p.m. or part of the month	2%
		(b) Rent for other than in (a)	50,000 p.m. or part of the month	10%
194-IA	393(1) [Table: Sr. No. 3(i)]	Payment on transfer on certain immovable properties (Other than agricultural land)	Consideration or SDV greater than or equal to 50 Lakhs	1%

ITA 1961	ITA 2025	Nature of Payment	Threshold Limit (INR)	Proposed Rate
194-IB	393(1) [Table: Sr. No. 2(i)]	Payment of Rent by person other than specified person to a resident	50,000 p.m.	2%[8]
194-IC	393(1) [Table: Sr. No. 3(ii)]]	Payment under specified agreement (in case of joint development agreement excluding payment in kind)	0	10%
194J	393(1) [Table: Sr. No. 6(iii)]	Payment to resident taxpayer for professional services, royalty	50,000	10%
		Payment to resident assessee for fees for technical services or payment to assessee engaged in the business of call centre	50,000	2%
		Remuneration, fees, commission paid to Director (other than those on which tax is required to be deducted u/s 192) which is not in the nature of Salary	50,000	10%
194K	393(1) [Table: Sr. No. 4(i)]	Income/Dividend in respect of Units of Mutual Fund payable to resident	10,000	10%
194LA	393(1) [Table: Sr. No. 3(iii)], 393(4) [Table: Sr. No. 3]	Compensation to a resident on acquisition of immovable property (excluding compensation received under RFCTLAAR Act, 2013)	5,00,000	10%
194LB	393(2) [Table: Sr. No. 5]	Interest paid to a Non-Resident by the Notified Infrastructure Debt Fund	0	5%[1]
194LBA	393(1) [Table: Sr. No. 4(ii)],	Payment to a resident Unit Holder specified in Section 223	0	10%
	393(2) [Table: Sr. No.6 & 7],	Payment of Interest to a non- resident Unit Holder specified in Section 223	0	5%[1]
	393(4) [Table: Sr. No. 5, 13]	Payment of Dividend to a non-resident Unit Holder specified in Section 223	0	10%

ITA 1961	ITA 2025	Nature of Payment	Threshold Limit (INR)	Proposed Rate
194LBB	393(1) [Table: Sr. No. 4(iii)], 393(2)[Table: Sr. No. 8], 393(4) [Table: Sr. No.14]	Income in respect of units of investment fund u/s 224 (1) In case of Payee being Resident (2) In case of Payee being Non-Resident	- 0 0	- 10% Rate in Force[1]
194LBC	393(1) [Table: Sr. No. 4(iv)], 393(2) [Table: Sr. No. 9]	Income distribution to an investor by Securitization Trust in respect of Section 221 (1) In case of Payee being Resident Ind/HUF (2) In case of Payee being Resident any other person (3) In case of Payee being Non-Resident	 NA NA NA	 10% 10% Rate in Force[1]
194LC	393(2) [Table: Sr. No. 2]	Interest payable by Indian Company or business trust to a non-resident on ECB	0	5%[1]
	393(2) [Table: Sr. No. 3]	Interest payable by Indian Company or business trust to a non-resident on money borrowed from outside India by way of issue of Rupee denominated bond before 1 July 2023	0	5%[1]
	393(2) [Table: Sr. No. 4]	Interest payable by Indian Company or business trust to a non-resident on money borrowed from outside India by way of issue of long term bond or rupee denominated which is listed only on a recognised stock exchange located in IFSC	0	4%[1] (bonds issued on or after 1 April 2020 but before 1 July 2023) 9%[1] (bonds issued on or after before 1 July 2023)
194M	393(1) [Table: Sr. No. 6(ii)]	Payment by Individual/HUF for carrying out any work pursuant to contract, commission & fees for profession services	50 Lakhs	2%

ITA 1961	ITA 2025	Nature of Payment	Threshold Limit (INR)	Proposed Rate
194N	393(3) [Table: Sr. No. 5], 393(4) [Table: Sr. No. 18}	TDS on Cash Withdrawal - Any other person (Except Co-operative Society) - Co-Operative Society	1 Cr. 3 Cr.	2% 2%
194O	393(1) [Table: Sr. No. 8(v)], 393(4) [Table: Sr. No. 11]	Payment by e-commerce operator to e-commerce participant in respect of sale of goods or services	5 lakhs[2]	0.1%
194P	393(1) [Table: Sr. No. 8(iii)]	TDS in case of resident senior citizen having age of 75 years or more and receiving only pension in the bank and interest income from the same bank	As per slab rate[3]	As per slab rate[3]
194Q	393(1) [Table: Sr. No. 8(ii)]	TDS on payment for purchase of goods by specified buyer	50 lakhs	0.1%
194R	393(1) [Table: Sr. No. 8(iv)]	TDS benefit or perquisite in respect of business or profession to a resident assessee	20000	10%
194S	393(1) [Table: Sr. No. 8(vi)], 393(4) [Table: Sr. No. 12]	TDS on payment for transfer of Virtual Digital Assets to a resident assessee (1)Specified Person[4] (2)Other than Specified Person	50000 50000	1% 1%
194T	393(3) [Table: Sr. No. 7]	TDS on Payment of any sum in nature of salary, remuneration, commission, bonus or interest to a partner of a firm	20000	10%
195	393(2) [Table: Sr. No.17]	Payment of other sums to Non-Resident	Rate specified in Part II of First Schedule of the Bill including applicable surcharge and Cess subject to rates in tax treaty if apply	

ITA 1961	ITA 2025	Nature of Payment	Threshold Limit (INR)	Proposed Rate
196A	393(2) [Table: Sr. No. 10], 393(4) [Table: Sr. No. 15]	Income to non-residents in respect of units of MF[9]	0	20%[1]
196B	393(2) [Table: Sr. No. 11 & 12]	Income from units (including long term capital gain on transfer of such units) to an offshore fund	5 lakhs[2]	0.1%
		(1) Income from units referred in 208	0	10%[1]
		(2) LTCG from units referred in 208	0	12.5%[1]
196C	393(2) [Table: Sr. No. 13 & 14]	Income from foreign currency bonds or GDR (including long term capital gain on transfer of such Bonds or GDR) of Indian Company	5 lakhs[2]	0.1%
		(1) Income from bonds/units referred in 209	0	10%[1]
		(2) LTCG from bonds/units referred in 209	0	12.5%[1]
196D	393(2) [Table: Sr. No. 15]	Income of FII from securities not being long term and short-term capital gain	0	20%[1]

Building Successful Partnerships
INDIA BUDGET 2026

Strengthening bilateral ties

India and Saudi Arabia deepen their strategic partnership for regional prosperity and cooperation

1. All rates of TDS for Non-Resident Assessee shall be increased by applicable Surcharge, Health & Education Cess.
2. This limit is provided to only e-commerce participant being resident individual or HUF whose gross amount from sale of services and goods does not exceed INR 5 lakhs and provided PAN or Aadhar card.
3. Specified senior citizen need to submit declaration in the prescribed Form and manner to the Specified Bank. Accordingly, such specified senior citizen is not required to file ITR for the year in which TDS is deducted.
4. Individuals or HUF whose Total Sales or Gross Receipts or Turnover does not exceed INR 1 Crore in case of Business or INR 50 lakhs in case of Profession during the financial year immediately preceding the financial year in which such asset is transferred.
5. Payment to contractor during the course of business of plying, hiring or leasing goods carriages and the contractor owns ten or less goods carriages at any time during the tax year and furnishes a declaration to that effect along with PAN to the payer and payer further furnishes such form to the prescribed income tax authority within such time as prescribed.
6. This limit is for individual transactions. However, if aggregate payments to contractors during the tax year exceeds INR 1,00,000 then TDS will have to be deducted even where individual transaction is less than the threshold limit of INR 30,000.
7. In case of payment of compensation amount awarded by Motor Accidents Claims Tribunal to individual, then TDS u/s. 393 is not applicable by view of proposed amendment in section 393(4) of ITA 2025.
8. In case tax is required to be deducted as per section 397(1)(e) of ITA 2025, TDS amount shall not exceed rent payable for the last month of the tax year or last month of tenancy.
9. No tax is required to be deducted in respect of income payable on units of Unit Trust of India to Non resident Indian HUF subject to prescribed conditions.

Note 1: A non-resident including foreign company is subject to lower withholding tax, if any, specified under applicable tax treaty subject to compliance with treaty access provision as provided under the Act.

Note 2: In order to strengthen the PAN /Aadhar Mechanism, as per section 397(2)(b) of the IT Act 2025 every person entitled to receive any amount on which tax is deductible i.e. the deductee, shall furnish his PAN to the deductor failing which the deductor shall deduct tax at source at higher of the following rates:

(i) prescribed in the Act;

(ii) at the rate in force i.e. the rate mentioned in the Finance Act; or

(iii) 20%

However, in the case TDS is required to be deducted u/s 393(1) [Table: Sl. No. 8(ii) or 8(v)], the maximum TDS rate will be 5% instead of 20%.

TCS Rates for FY 2026-27 (See Notes)

ITA 1961	ITA 2025	Nature of Payment	Threshold Limit (INR)	Proposed Rate
206C(1)	394(1) Table Sr. No. 1	Sale of alcoholic Liquor for human consumption	0	2%
206C(1)	394(1) Table Sr. No. 2	Sales of tendu leaves	0	2%
206C(1)	394(1) Table Sr. No. 3	Sale of Timber whether obtained under a forest lease or otherwise; or any other forest produce (not being timber or tendu leaves) obtained under a forest lease.	0	2%
206C(1)	394(1) Table Sr. No. 4	Sale of scrap	0	2%
206C(1)	394(1) Table Sr. No. 5	Sale of minerals, being coal or lignite or iron ore	0	2%
206C(1C)	394(1) Table Sr. No. 9	Parking Lot/ Toll plaza/Mining and Quarrying	0	2%
206C(1G)	394(1) Table Sr. No. 7a	Remittance under LRS – Education / Medical treatment	10 Lakhs	2%
206C(1G)	394(1) Table Sr. No. 7b	Remittance under LRS – Other Purposes	10 Lakhs	20%
206C(1G)	394(1) Table Sr. No. 8	Sale of overseas tour program package including related expenses	0	2%
206C(1F)	394(1) Table Sr. No. 6	Sale of Motor or any other goods as specified	10 Lakhs	1% (above 10 lakhs)

Note 1: As per section 397(2) of the IT Act, 2025 (section 206CC of the ITA 1961), every person entitled to receive any amount on which TCS applies shall furnish his PAN to the person responsible for collecting tax failing which the seller shall collect tax at higher of the following rates, not exceeding 20%:

(i) at twice the rate specified in the section, or

(ii) at the rate of 5%

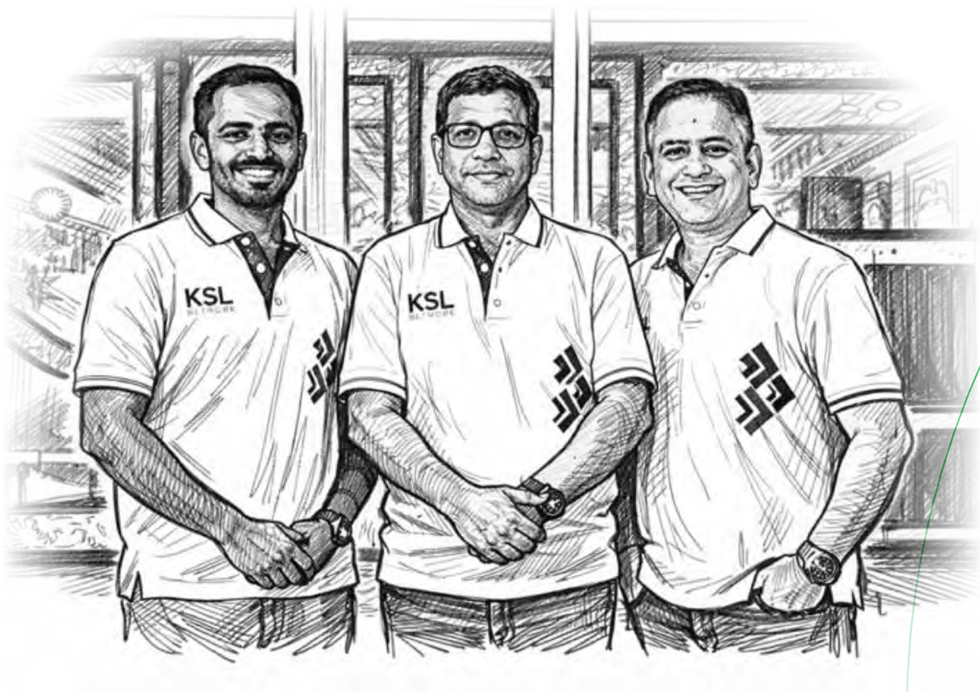
Note

Note

Note

Tata & Starbucks partnership

Ratan Tata and Howard Schultz at the launch of the Tata–Starbucks joint venture, marking the partnership that introduced Starbucks to India.



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