Detailed analysis of Union Budget 2026

TAX LAW EDUCARE SOCIETY

Dr. Girish Ahuja, Dr. Ravi Gupta, CA Arun Ahuja

Quotes from the Hon'ble Finance Minister Budget Speech

Our Government's 'Sankalp' is to focus on our poor, underprivileged and the disadvantaged. To deliver on this Sankalp, and given that this is the first Budget prepared in Kartavya Bhawan, ***we are inspired by 3 Kartavya:***

Our First Kartavya *is to accelerate and sustain economic growth, by enhancing productivity and competitiveness, and building resilience to volatile global dynamics.*

Our Second Kartavya *is to fulfil aspirations of our people and build their capacity, making them strong partners in India's path to prosperity.*

Our Third Kartavya, *aligned with our vision of Sabka Sath, Sabka Vikas, is to ensure that every family, community, region and sector has access to resources, amenities and opportunities for meaningful participation.*

*****

REACTIONS TO BUDGET

- **Hon'ble PM Mr. Narinder Modi said,** "This Budget is a strong foundation for the flight to the vision of Viksit Bharat 2047. This Budget will provide fresh energy and speed to the 'reform express' on which India is riding today. The path-breaking reforms provide an open sky to the courageous, talented youth of India. Our effort has been to continuously strengthen skill, scale, and sustainability."
- **Former Finance Minister P Chidambaram** said that it "failed test of economic strategy, economic statesmanship". "Unemployment, depreciation of rupee, many other challenges were not addressed by the fin minister. Even by accountants' standards, it was a poor account of the management of the accounts. Not a word to explain his miserable performance in revenue and expenditure,"
- **Leader of Opposition in Lok Sabha Rahul Gandhi** said the Union Budget for 2026-27 is "blind to India's real crises", and highlighted how the youth are without jobs, manufacturing is falling and farmers are in distress. "Youth without jobs. Falling manufacturing. Investors pulling out capital. Household savings plummeting. Farmers in distress. Looming global shocks - all ignored," the Congress leader said.
- **Congress MP Shashi Tharoor** says this year's Budget had "nothing for the middle class and the lower middle class" and that "there was nothing there for the states".
- **Mr. Ravi Agarwal, Co-Founder & Managing Director, Cellecor** "The parallel focus on employment generation and large-scale skilling in electronics manufacturing and emerging technologies will help create a future-ready workforce across factories, assembly lines, and service ecosystems."
- **Tarun Garg (MD & CEO, Hyundai Motor India):** Praised it as a long-term roadmap accelerating India as a global manufacturing hub and Atmanirbhar Bharat—highlighting rare earth corridors, EV battery/electronics, MSME empowerment, AI investments, tourism, rural growth, and ease of doing business.
- **Bengal CM Mamta Banerjee:** "They have not given a single paisa for Bengal. This is a Humpty Dumpty budget," "This Budget is directionless, visionless, actionless and anti-people. It is also anti-women, anti-farmer, anti-education and against the SC, ST and OBC... There is nothing on offer for Bengal in the Budget," she said.

Disclaimer

Budget 2026 proposals presented by the Finance Minister before the Parliament are analysed in this document. It should not be relied upon as a substitute for detailed advice or a basis for formulating business decisions.

The proposals are subject to amendment as the Finance Bill is yet to be passed by the Parliament.

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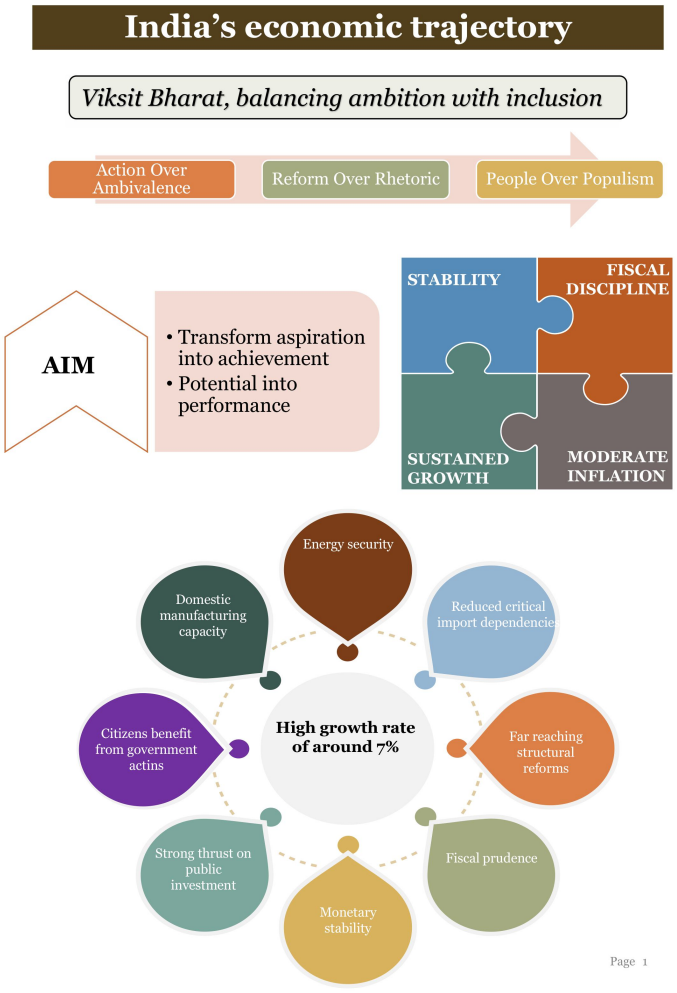
KEY FEATURES OF BUDGET 2026-27

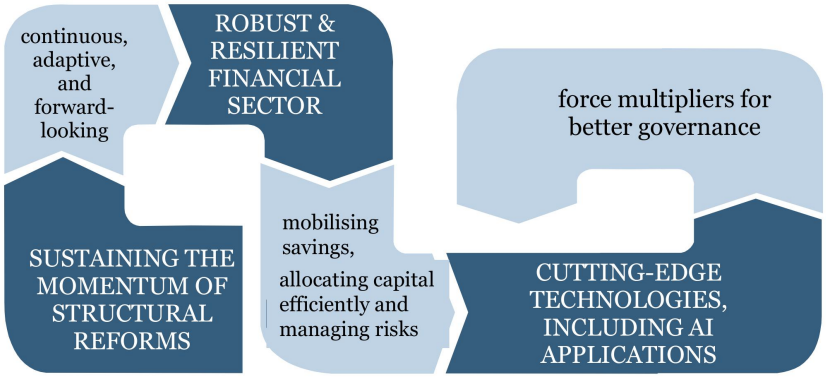


Yuva Shakti-driven Budget

Government's 'Sankalp'

To focus on poor, underprivileged and disadvantaged

First Kartavya	Second Kartavya	Third Kartavya
Accelerate and sustain economic growth	Fulfil aspirations of our people	Vision of Sabka Sath, Sabka Vikas
• Enhancing productivity and competitiveness • Building resilience to volatile global dynamics	• Build people's capacity • Making them strong partners in India's path to prosperity	• Ensure that every family, community, region and sector has access to resources, amenities and opportunities for meaningful participation



India's Reform Express

- Government has undertaken **comprehensive economic reforms** towards creating employment, boosting productivity and accelerating growth.
- Over **350 reforms** have been rolled out, including GST simplification, notification of Labour Codes, and rationalisation of mandatory Quality Control Orders.
- **High Level Committees** have been formed.
- Central Government is working with the State Governments on **deregulation** and reducing compliance requirements.

Pillars of Growth and Development

1. Sustaining Economic Growth

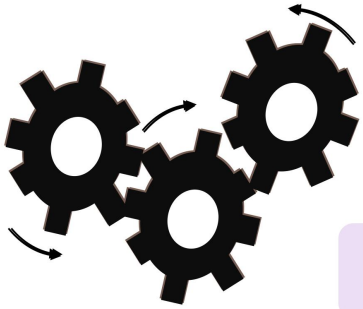
1.1 Manufacturing - Strategic and Frontier Sectors

India Semiconductor Mission (ISM) 2.0

Biopharma *SHAKTI*

Hi-Tech Tool Rooms in CPSEs

Scheme for Rare Earth Permanent Magnets, research, mining, processing and manufacturing



Scheme for Container Manufacturing

3 Dedicated Chemical Parks, enhancing domestic production

Integrated Programme for Textiles

Dedicated initiative for manufacturing of affordable Sports Goods

Electronics Components Manufacturing Scheme

Strengthening domestic manufacturing of high-value and technologically-advanced Construction and Infrastructure Equipment

Scheme to revive 200 legacy industrial clusters

Tax Reforms to boost Manufacturing Sector

Exemption from income tax for five years to non-residents providing capital goods, equipment or tooling, to any toll manufacturer in a bonded zone.

Provision of safe harbour to non-residents for component warehousing in a bonded warehouse.

Deferred duty payment window to trusted manufacturers.

Increase the limit for duty-free imports of specified inputs used for processing seafood products for export, from the current 1 per cent to 3 per cent of the FOB value of the previous year's export turnover.

Duty-free imports of specified inputs extended to export of shoe uppers in addition to leather or synthetic footwear.

Extension of time for the export of final product from the existing 6 months to 1 year, for exporters of leather or textile garments, leather and synthetic footwear.

Exemption from basic customs duty on specified parts used in the manufacture of microwave ovens.

Exemption from basic customs duty on components and parts used in aircraft manufacturing.

Exemption from basic customs duty on raw materials imported for manufacture of aircraft parts used in maintenance, repair, or overhaul requirements defence units.

Regular importers with trusted longstanding supply chains to be recognized in the risk system.

Export cargo using electronic sealing to be provided through clearance from the factory premises to the ship.

A special one-time measure to facilitate sale in domestic tariff area at concessional rate of duty by eligible manufacturing units of SEZs.

Three-pronged approach to help MSMEs grow as 'Champions'

Equity Support

- Dedicated ₹10,000 crore **SME Growth Fund.**
- Top up the Self-Reliant India Fund (2021) with ₹2,000 crore.

Professional Support

Government to facilitate Professional Institutions to develop 'Corporate Mitras' especially in Tier-II and Tier-III towns, to help MSMEs meet compliance requirements at affordable costs.

Liquidity Support through TReDS

- Mandate TReDS as the transaction settlement platform for all purchases from MSMEs by CPSEs, serving as a benchmark for other corporates.
- Introduce a credit guarantee support mechanism through CGTMSE for invoice discounting on the TReDS platform.
- Linking GeM with TReDS to encourage cheaper and quicker financing.
- TReDS receivables as asset-backed securities, to develop a secondary market and enhance liquidity and settlement of transactions.

Tax Proposal - Removal of the current value cap of ₹10 lakh per consignment on courier exports.

1.2 Renewing the emphasis on Services Sector

Service Sector — **High-Powered 'Education to Employment and Enterprise' Standing Committee** to focus on the Services Sector as a core driver of Viksit Bharat.

Health — Upgrade and establishing new institutions for **Allied Health Professionals (AHPs)** in ten selected disciplines.

Care Ecosystem — Developing a variety of **NSQF-aligned programmes** to train 1.5 lakh multiskilled caregivers.

Medical Tourism — Schemes to suppoprt States in **establishing Five Hubs for Medical Value Tourism** in partnership with the private sector.

AYUSH — **3 new All India Institutes of Ayurveda, upgrading AYUSH pharmacies and Drug Testing Labs** for higher standards of certification ecosystem**, & upgrading the WHO Global Traditional Medicine Centre.**

Orange Economy — **Setting up AVGC Content Creator Labs** in 15,000 secondary schools and 500 colleges.

Design — **Setting up of a new National Institute of Design** through the Challenge route in **eastern region of Inda.**

Sports — **Khelo India Mission -** integrated talent development pathweay, systematic coaching development, intergration of science & technology and development of sports infrastructure.

Education

5 University Townships in the vicinity of major industrial and logistic corridors.

A girls' hostel in Higher Education STEM institutions in **every district.**

Setting up or upgrading of four **Telescope Infrastructure facilities.**

Tourism

Setting up a National Institute of Hospitality as a bridge between academia, industry and the Government.

Pilot scheme for upskilling 10,000 guides in 20 iconic tourist sites.

National Destination Digital Knowledge Grid to digitally document all places of significance.

To develop ecologically sustainable **Mountain trails, Turtle Trails and Bird watching trails** in select states.

India to host the first ever Global Big Cat Summit.

Develop 15 archeological sites into vibrant, experiential cultural destinations.

Development of Buddhist Circuits in North East Region.

Tax Reforms to boost Services Sector

Clubbing of services under a single category of information technology services with a common safe harbour margin of 15.5%.

Safe harbour threshold for IT services increasing from ₹ 300 crore to ₹2,000 crore.

Approval of safe harbour for IT services by an automated rule-driven process.

Continuation of safe harbour for a period of five years at the company's choice.

Fastracking unilateral APA process for IT services with an aim to conclude it within a period of two years. Can be extended by a further period of six months on the taxpayer's request.

Extension of facility of modified returns for APA-availing entities to its associated entities.

Provision of tax holidays until 2047 to foreign companies providing cloud services to global customers through India-based data centre services. Related Entities providing data center services from India to get a safe-harbour of 15% on cost.

Exemption to global income of non-resident expert for a stay period of 5 years under notified schemes.

Financial Sector

Setting up of **High Level Committee on Banking for Viksit Bharat** to align with India's next growth phase.

Incentive of ₹100 crore for single issuance of municipal bonds of more than ₹1000 crore.

Current Scheme under AMRUT will continue.

Restructuring Power Finance Corporation (PFC) and Rural Electrification Corporation (REC).

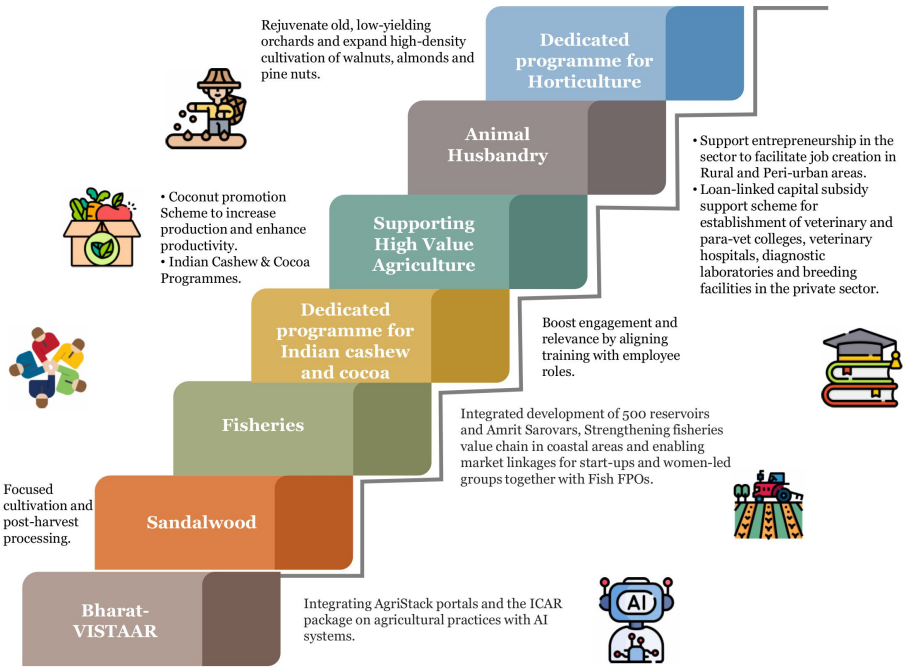
Comprehensive Review of the Foreign Exchange Management (FEMA) (Non-debt Instruments) Rules.

Introduction of Market making framework and total return swaps on corporate bonds.

Tax Proposals for Financial Sector

- Raising the STT on Futures from 0.02% to 0.05%.
- STT on options premium and exercise of options to be raised to 0.15% from rate of 0.1% and 0.125%, respectively.

1.3 Increasing farmer's income by enhancing productivity in agricultural and allied sectors



TAX PROPOSALS

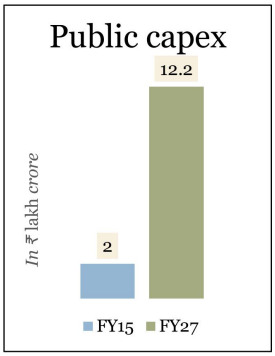
- Fish catch by an Indian fishing vessel in Exclusive Economic Zone (EEZ) or on the High Seas to be made free of duty. Treating the landing of such fish on foreign port as export of goods.
- Deduction allowed to primary cooperative society engaged to include supply of cattle feed and cotton seed produced by members.
- Allowing inter-cooperative society dividend income as deduction under the new tax regime to the extent distributed to members.
- Exemption from tax dividend income received by a notified national co-operative federation from investments made in companies up to 31.1.2026 from tax for a period of three years. Exemption to be allowed only for dividends distributed to its member co-operatives.

2. Strengthening the Foundations of Growth

2.1 Infrastructure

Several initiatives for large-scale enhancement of public infrastructure - InVITs, REITs, NIIF and NABFID

Continue to focus on developing infrastructure in cities with over 5 lakh population (Tier II and Tier III)



- **Setting up Infrastructure Risk Guarantee Fund** to provide prudently calibrated partial credit guarantees to lenders.
- Recycling of **real estate assets of CPSEs through the setting up of dedicated REITs**.
- Establishment of new **Dedicated Freight Corridors** connecting Dankuni in the East, to Surat in the West.
- Operationalising **20 new National Waterways** connecting mineral rich areas, industrial centres and ports.
- Setting up of ship repair ecosystem catering to inland waterways.
- Launch a **Coastal Cargo Promotion Scheme** to increase the share of inland waterways and coastal shipping from 6% to 12% by 2047.
- Launching a **Seaplane VGF Scheme** to indigenise manufacturing.
- ₹2 lakh crore support to states under **SASCI Scheme.**
- **Purvodaya: Development of Integrated East Coast Industrial Corridor.**

2.2 Ensuring long-term energy security and stability

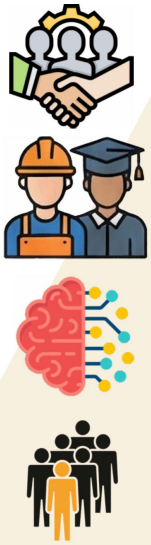
- ❑ Scheme to adopt Carbon Capture Utilization and Storage (CCUS) with an outlay of ₹20,000 crore.
- ❑ Exemption of BCD on import of sodium antimonate for use in manufacture of solar glass.
- ❑ Exemption of BCD on import of capital goods required for the processing of critical minerals in India.

- ❑ Extending exemption of BCD to capital goods used for the manufacture of Lithium-Ion Cells for batteries to be used in battery energy storage systems.
- ❑ Extension of the existing basic customs duty exemption on imports of goods required for Nuclear Power Projects till the year 2035 and expand it for all nuclear plants irrespective of their capacity.
- ❑ Exclusion of entire value of biogas in Central Excise duty payable on biogas blended CNG.

2.3 Urbanisation: City Economic Regions

- ❖ **Amplifying the potential of cities to** deliver the economic power of agglomerations.
- ❖ Focus on Tier II, Tier III cities, and temple-towns.
- ❖ **'Growth Connectors' - 7 High-Speed Rail corridors** between cities - Mumbai-Pune, Pune-Hyderabad, Hyderabad-Bengaluru, Hyderabad-Chennai, Chennai-Bengaluru, Delhi-Varanasi, Varanasi-Siliguri - Environmentally sustainable passenger systems.

3. People Centric Development

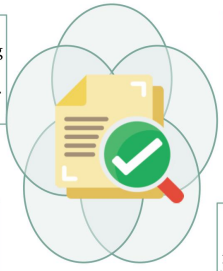


- Building a strong Care Ecosystem, covering geriatric and allied care services. Training of 1.5 lakh multiskilled caregivers.
- Self-Help Entrepreneur (SHE) Marts to be set up as community-owned retail outlets within the cluster level federations.
- Divyangjan Kaushal Yojana - providing dignified livelihood opportunities through industry-relevant and customized training specific to disability groups.
- Divyang Sahara Yojana: Timely access to high-quality assistive devices for all eligible.
- Supporting Artificial Limbs Manufacturing Corporation of India (ALIMCO) to scale up production of assistive devices, invest in R&D and AI integration.
- Strengthen PM Divyasha Kendras as modern retail-style centres.
- Setting up of a NIMHANS-2 & upgrading National Mental Health Institutes in Ranchi and Tezpur.
- Establishing Emergency and Trauma Care Centres in district hospitals.

4. Trust based Governance

Enhancement of duty-deferral period for Tier 2 and Tier 3 Authorised Economic Operators (AEO) from 15 to 30 days. Eligible manufacturer-importers to get the same duty deferral facility. Government agencies will be encouraged to leverage AEO accreditation.

Transformation of Customs warehousing framework into a warehouse operator-centric system with self-declarations etc.



Extension of validity period of advance ruling, binding on Customs, from 3 years to 5 years.

The filing of Bill of entry by a trusted importer, and arrival of goods to automatically notify Customs.

Regular importers with trusted longstanding supply chains will be recognized in the risk system, so that the need for verification of their cargo every time can be minimized.

5. Ease of Doing Business and Ease of Living

- ✓ Individual Persons Resident Outside India (PROIs) will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme (PIS).
- ✓ Interest awarded by the motor accident claim tribunal to a natural person will be exempt from Income Tax, and any TDS on this account will be done away with.
- ✓ Reduce TCS rate on sale of overseas tour program package from 5% and 20% to 2% without any stipulation of amount.
- ✓ Reduce TCS for pursuing education and for medical purposes under the Liberalized Remittance Scheme (LRS) from 5% to 2%.
- ✓ TDS on Supply of manpower services to be at the rate of either 1% or 2%.
- ✓ Obtaining a lower or nil deduction certificate through rule-based automated process for small taxpayers.
- ✓ Enable depositories to accept Form 15G or Form 15H from taxpayers holding securities in multiple companies.
- ✓ Time available for revising returns extended from 31st December to up to 31st March with the payment of a nominal fee.
- ✓ Individuals with ITR 1 and ITR 2 returns will continue to file till 31st July and non-audit business cases or trusts are proposed to be allowed time till 31st August.
- ✓ TDS on the sale of immovable property by a non-resident to be deducted and deposited through resident buyer's PAN instead of TAN.
- ✓ Introducing a one-time 6-month foreign asset disclosure scheme below a certain size for small taxpayers.
- ✓ Allow taxpayers to update their returns even after reassessment proceedings have been initiated at an additional 10 percent tax rate over and above the rate applicable for the relevant year.
- ✓ Framework for immunity from penalty and prosecution in the cases of underreporting extended to misreporting.
- ✓ Non-production of books of account and documents and requirement of TDS payment is decriminalised.
- ✓ Immunity from prosecution with retrospective effect from 1.10.2024 for non-disclosure of non-immovable foreign assets with aggregate value less than ₹ 20 lakh.
- ✓ Exemption from Minimum Alternate Tax (MAT) to all non-residents who pay tax on presumptive basis.
- ✓ Constitute a Joint Committee of Ministry of Corporate Affairs and Central Board of Direct Taxes for incorporating the requirements of Income Computation and Disclosure Standards (ICDS) in the Indian Accounting Standards (IndAS).
- ✓ Tax buyback for all types of shareholders as Capital Gains. However, promoters will pay an additional buyback tax.
- ✓ Set-off using available MAT credit to be allowed to an extent of 1/4th of the tax liability in the new regime.
- ✓ MAT is proposed to be made final tax.
- ✓ Exempt BCD on 17 drugs or medicines for cancer patients.
- ✓ Single and interconnected digital window for cargo clearance approvals.
- ✓ Customs Integrated System (CIS) to be rolled out in 2 years.
- ✓ Honest taxpayers willing to settle disputes will now be able close cases by paying an additional amount in lieu of penalty.

6. Fiscal matters

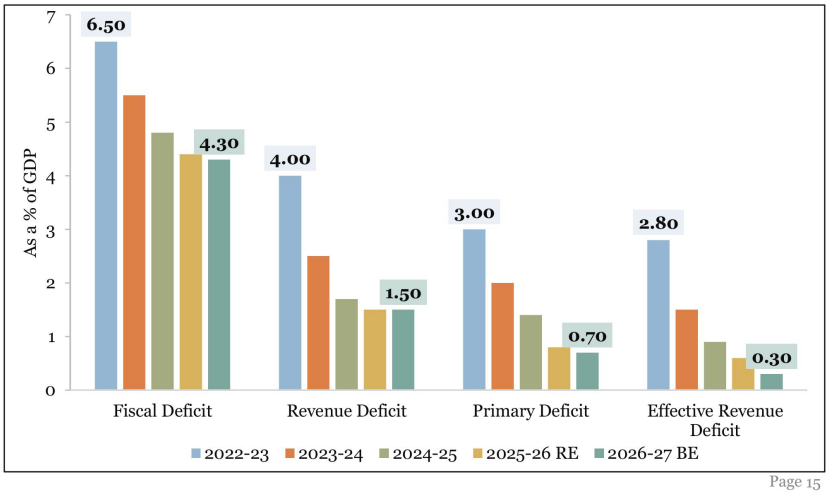
16th Finance Commission

- The Government has accepted the recommendation of the Commission to retain the vertical share of devolution at 41%.
- Provision ₹1.4 lakh crore to the States for the FY 27 as Finance Commission Grants. These include Rural and Urban Local Body and Disaster Management Grants.

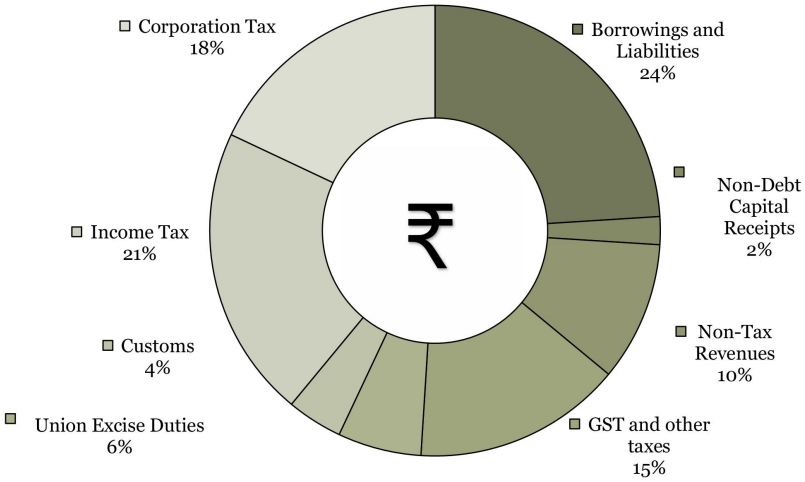
Fiscal Consolidation

- Central Government will target reaching a debt-to-GDP ratio of 50±1 percent by 2030.
- The debt-to-GDP ratio is estimated to be 55.6 percent of GDP in BE 2026-27, compared to 56.1 percent of GDP in RE 2025-26.
- In RE 2025-26, the fiscal deficit has been estimated at par with BE of 2025-26 at 4.4 percent of GDP. In line with the new fiscal prudence path of debt consolidation, the fiscal deficit in BE 2026-27 is estimated to be 4.3 percent of GDP.

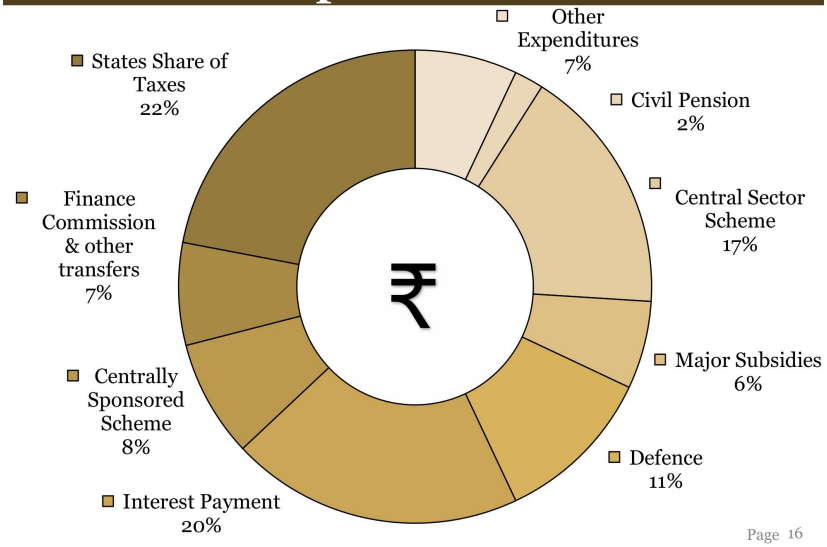
Deficit Trends



Rupee Comes From

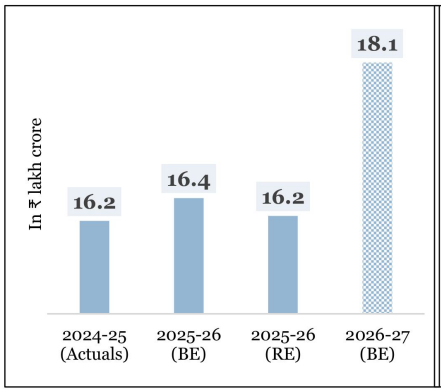


Rupee Goes To

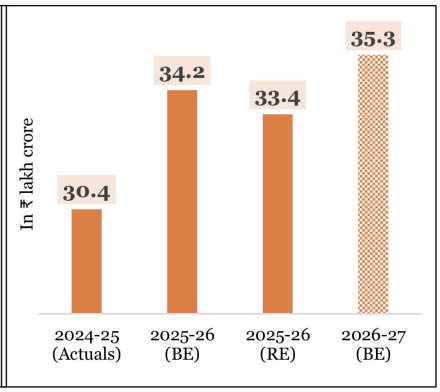


RECEIPTS

Capital Receipts

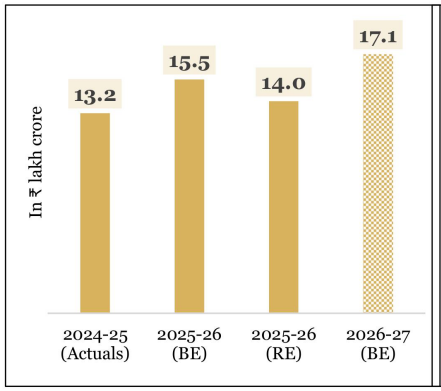


Revenue Receipts

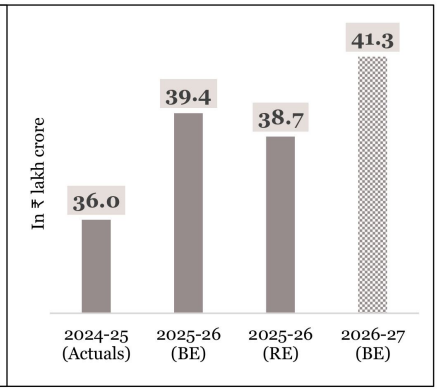


EXPENDITURES

Effective Capital Expenditure

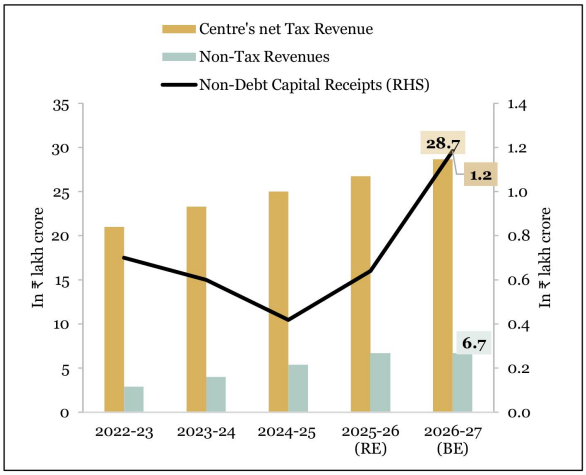


Revenue Expenditure

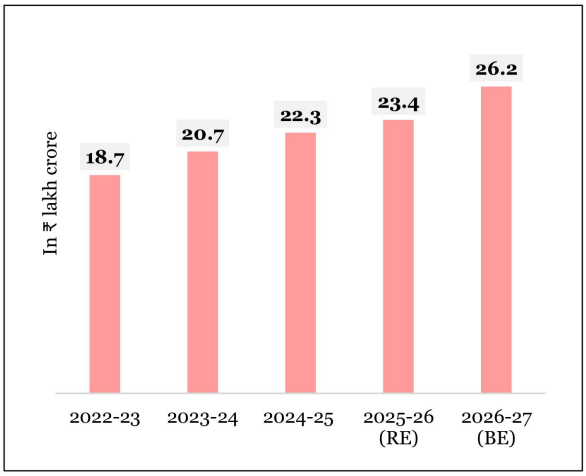


Robust Economic Foundations

Trend in Net Receipt of Centre

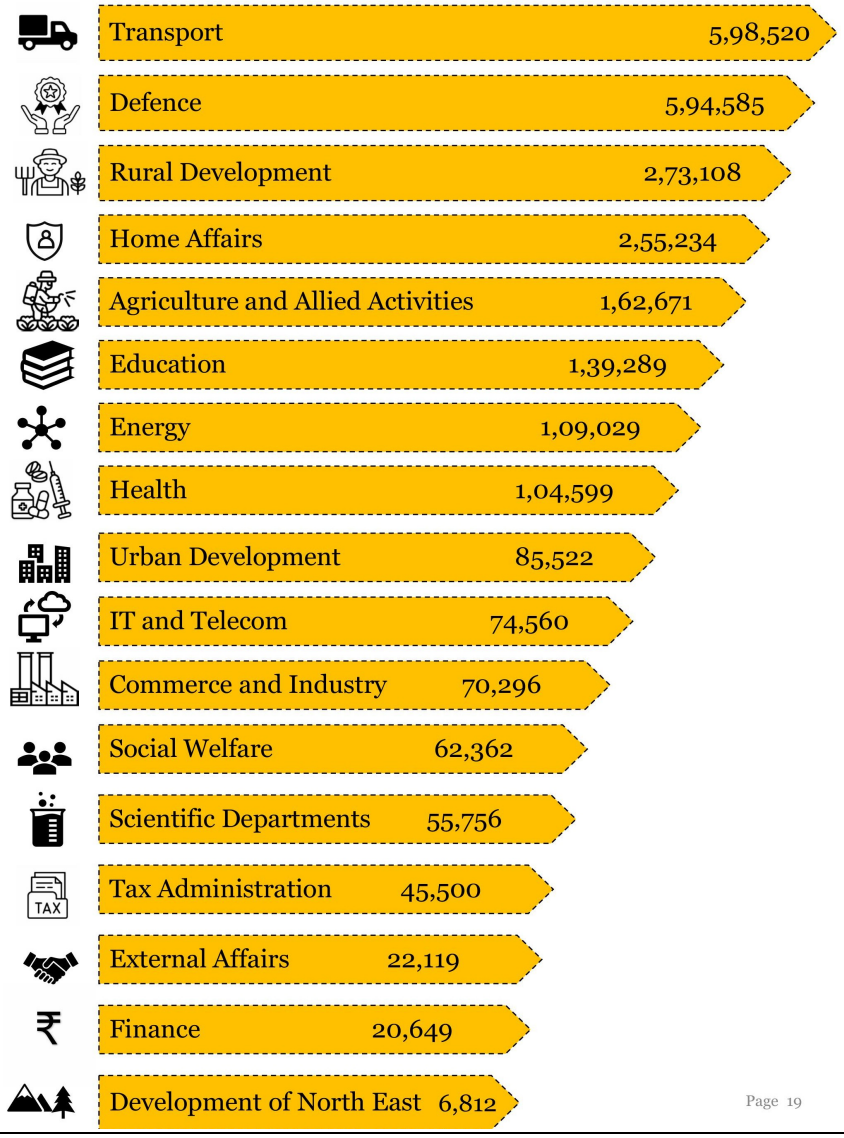


Total transfer to States and UTs



Expenditure of Major Items

In ₹ crore



DIRECT TAX PROPOSALS AS PER THE FINANCE BILL, 2026

DIRECT TAXES

RATES OF INCOME-TAX

I. Rates of income-tax in respect of income liable to tax for the assessment year 2026-27 for the purposes of the Income-tax Act, 1961.

In respect of income of all categories of assessees liable to tax for the assessment year 2026-27, the rates of income-tax have either been specified in specific sections of the Income-tax Act, 1961 (like section 115BAA or 115BAB for domestic companies, section 115BAC for individual/Hindu undivided family (HUF)/Associations of Persons (AOP) (other than a co-operative society)/Body of Individuals (BOI)/Artificial Juridical Person (AJP) and section 115BAD or 115BAE for cooperative societies) or have been specified in Part I-A of the First Schedule to the Bill. There is no change proposed in tax rates either in these specific sections or in the First Schedule. The rates provided in sections 115BAA or 115BAB or 115BAC or 115BAD or 115BAE of the Act for the assessment year 2026-27 would be same as already enacted. Similarly, rates laid down in Part III of the First Schedule to the Finance Act, 2025, for the purposes of computation of "advance tax", deduction of tax at source from "Salaries" and charging of tax payable in certain cases for the financial year 2025-26 would now become Part I of the First Schedule.

Tax rates under section 115BAC of the Income-tax Act, 1961—

For assessment year 2026-27, as per the provisions of section 115BAC(1A) of the Income-tax Act, 1961, an individual or Hindu undivided family or association of persons [other than a co-operative society], or body of individuals, whether incorporated or not, or an artificial juridical person referred to in section 2(31)(vii), has to pay tax in respect of the total income at following rates:

Sl. No.	*Total income*	*Rate of tax*
(1)	*(2)*	*(3)*
1.	Upto ₹ 4,00,000	Nil
2.	From ₹ 4,00,001 to ₹ 8,00,000	5%
3.	From ₹ 8,00,001 to ₹ 12,00,000	10%
4.	From ₹ 12,00,001 to ₹ 16,00,000	15%
5.	From ₹ 16,00,001 to ₹ 20,00,000	20%
6.	From ₹ 20,00,001 to ₹ 24,00,000	25%
7.	Above ₹ 24,00,0000	30%

2. The above-mentioned rates shall apply, unless an option is exercised as per provisions of section 115BAC(6). Thus, rates specified in section 115BAC(1A) are the default rates.

3. In respect of income chargeable to tax under section 115BAC(1A)(iii), the income- tax for the assessment year 2026-27 shall be increased by a surcharge, for the purposes of the Union, computed, in the case of every individual or Hindu undivided family or association of persons, or body of individuals, whether incorporated or not, or every artificial juridical person referred to in section 2(31)(vii) of the Act,-

(i) having a total income (including the dividend income or capital gains under the provisions of section 111A, section 112 and section 112A of the Income-tax Act, 1961) exceeding fifty lakh rupees but not exceeding one crore rupees, at the rate of 10% of such income-tax;

(ii) having a total income (including the dividend income or capital gains under the provisions of section 111A, section 112 and section 112A of the Income-tax Act, 1961) exceeding one crore rupees but not exceeding two crore rupees, at the rate of 15% of such income-tax;

(iii) having a total income (excluding the dividend income or capital gains under the provisions of section 111A, section 112 and section 112A of the Income-tax Act, 1961) exceeding two crore rupees, at the rate of 25% of such income-tax;

(iv) having a total income (including the dividend income or capital gains under the provisions of section 111A, section 112 and section 112A of the Income-tax Act, 1961) exceeding two crore rupees, but is not covered under clause (iii) above, at the rate of 15% of such income-tax;

3.1 In case where the provisions of section 115BAC(1A) are applicable and the total income includes any dividend income or capital gains under the provisions of section 111A, section 112 and section 112A of the Income-tax Act, 1961, the rate of surcharge on the income-tax in respect of that part of income shall not exceed 15%.

3.2 Further, in the case of an association of persons consisting of only companies as its members, and having its income chargeable to tax under section 115BAC(1A), the rate of surcharge on the income-tax shall not exceed 15%.

3.3 Marginal relief shall be provided in such cases.

Tax rates under Part I-A of the First Schedule applicable for the assessment year 2026- 27

A. Individual, HUF, association of persons, body of individuals, artificial juridical person.

Paragraph A of Part-I-A of First Schedule to the Bill provides following rates of income-tax:—

(i) The rates of income-tax in the case of every individual (other than those mentioned in (ii) and (iii) below) or HUF or every association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in section 2(31)(vii) of the Income-tax Act, 1961 (not being a case to which Paragraph B, C, D or E of Part I-A applies) are as under:—

(1)	Upto ₹ 2,50,000	Nil
(2)	From ₹ 2,50,001 to ₹ 5,00,000	5%
(3)	From ₹ 5,00,001 to ₹ 10,00,000	20%
(4)	Above ₹ 10,00,000	30%

(ii) In the case of every individual, being a resident in India, who is of the age of sixty years or more but less than eighty years at any time during the previous year,—

(1)	Upto ₹ 3,00,000	Nil
(2)	From ₹ 3,00,001 to Rs.5,00,000	5%
(3)	From ₹ 5,00,001 to Rs.10,00,000	20%
(4)	Above ₹ 10,00,000	30%

(iii) in the case of every individual, being a resident in India, who is of the age of eighty years or more at any time during the previous year,—

(1)	Upto ₹ 5,00,000	Nil
(2)	From ₹ 5,00,001 to Rs.10,00,000	20%
(3)	Above ₹ 10,00,000	30%

These rates are the same as those applicable for the assessment year 2025-26.

B. Co-operative Societies

In the case of co-operative societies, the rates of income-tax have been specified in Paragraph B of Part I-A of the First Schedule to the Bill. They remain unchanged at (10% up to ₹ 10,000; 20% between ₹ 10,001 to ₹ 20,000; and 30% when income excess ₹ 20,000).

C. Firms

In the case of firms, the rate of income-tax has been specified in Paragraph C of Part I- A of the First Schedule to the Bill. They remain unchanged at 30%.

D. Local authorities

In the case of local authority, the rate of income-tax has been specified in Paragraph D of Part I-A of the First Schedule to the Bill. They remain unchanged at 30%.

E. Companies

In the case of companies, the rates of income-tax have been specified in Paragraph E of Part I-A of the First Schedule to the Bill and remain unchanged vis-à-vis those for the AY 2025-26. In case of domestic company, the rate of income-tax shall be 25% of the total income, if the total turnover or gross receipts of the previous year 2023-24 does not exceed ₹ 400 crores and in all other cases the rate of income-tax shall be 30% of the total income.

2. In the case of companies other than domestic companies, the rate of income-tax shall be 35%, on the total income other than income chargeable at special rates.

(1) Surcharge on income-tax

The rates of surcharge on the amount of income-tax for the purposes of the Union are specified in Paragraph F of Part I-A of the First Schedule and are the same as that specified for the AY 2025-26. The surcharge shall not apply on income-tax computed on income of specified fund (referred to in section 10(4D)[Explanation(c)]) that is chargeable under section 115AD(1)(a). Further, for person whose income is chargeable to tax under section 115BAC(1A) of the Act, the surcharge at the rate of 37% on the income or aggregate of income of such person (excluding the dividend income or capital gains under the provisions of section 111A, section 112 and section 112A of the Income-tax Act, 1961) exceeding five crore rupees is not applicable. In such cases the surcharge is restricted to 25%.

(2) Marginal Relief—

Marginal relief has also been provided in all cases where surcharge is proposed to be imposed.

(3) Education Cess—

For assessment year 2026-27, "Health and Education Cess on income-tax" is to be levied at the rate of 4% on the amount of income-tax so computed, inclusive of surcharge wherever applicable, in all cases. No marginal relief shall be available in respect of such cess.

II. Rates of income-tax in respect of income liable to tax for the tax year 2026-27 for the purposes of Income-tax Act, 2025.

In respect of income of all categories of assessees liable to tax for the tax year

2026-27, the rates of income-tax have either been specified in specific sections of the Act (like section 200 or section 201 for domestic companies, section 202 for individual/HUF/AOP (other than a co-operative society)/BOI/AJP and section 203 or section 204 for cooperative societies) or have been specified in Part I-B of the First Schedule to the Bill. There is no change proposed in tax rates either in these specific sections or in the First Schedule. The rates provided in sections 200 or 201 or 202 or 203 or 204 of the Act for the tax year 2026-27 would be same as already enacted.

Tax rates under section 202—

For tax year 2026-27, as per the provisions of section 202 of the Act, an individual or Hindu undivided family or association of persons [other than a co-operative society], or body of individuals, whether incorporated or not, or an artificial juridical person referred to in section 2(77)(g), has to pay tax in respect of the total income at following rates:

Sl. No.	***Total income***	***Rate of tax***
1.	Upto ₹ 4,00,000	Nil
2.	From ₹ 4,00,001 to ₹ 8,00,000	5%
3.	From ₹ 8,00,001 to ₹ 12,00,000	10%
4.	From ₹ 12,00,001 to ₹ 16,00,000	15%
5.	From ₹ 16,00,001 to ₹ 20,00,000	20%
6.	From ₹ 20,00,001 to ₹ 24,00,000	25%
7.	Above ₹ 24,00,0000	30%

2. The above-mentioned rates shall apply, unless an option is exercised as per provisions of section 202(4). Thus, rates specified in section 202 are the default rates.

3. In respect of income chargeable to tax under section 202, the income-tax for the tax year 2026-27 shall be increased by a surcharge, for the purposes of the Union, computed, in the case of every individual or Hindu undivided family or association of persons, or body of individuals, whether incorporated or not, or every artificial juridical person referred to in section 2(77)(g) of the Act,-

(i) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding fifty lakh rupees but not exceeding one crore rupees, at the rate of 10% of such income-tax;

(ii) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding one crore rupees but not exceeding two crore rupees, at the rate of 15% of such income-tax;

(iii) having a total income (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding two crore rupees, at the rate of 25% of such income-tax;

(iv) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding two crore rupees, but is not covered under clause (iii) above, at the rate of 15% of such income-tax;

3.1 In case where the provisions of section 115BAC(1A) are applicable and the total income includes any dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act, the rate of surcharge on the income-tax in respect of that part of income shall not exceed 15%.

3.2 Further, in the case of an association of persons consisting of only companies as its members, and having its income chargeable to tax under section 202, the rate of surcharge on the income-tax shall not exceed 15%.

3.3 Marginal relief shall be provided in such cases.

Tax rates under Part I-B of the First Schedule applicable for the tax year 2026-27

A. Individual, HUF, association of persons, body of individuals, artificial juridical person.

With effect from tax year 2026-27, the following rates provided under section 202 of the Act shall be the rates applicable for determining the income-tax payable in respect of the total income of a person, being an individual or Hindu undivided family or association of persons [other than a co-operative society], or body of individuals, whether incorporated or not, or an artificial juridical person referred to in section 2(77)(g) of the Act:—

Sl. No.	*Total income*	*Rate of tax*
1.	Upto ₹ 4,00,000	Nil
2.	From ₹ 4,00,001 to ₹ 8,00,000	5%
3.	From ₹ 8,00,001 to ₹ 12,00,000	10%
4.	From ₹ 12,00,001 to ₹ 16,00,000	15%
5.	From ₹ 16,00,001 to ₹ 20,00,000	20%
6.	From ₹ 20,00,001 to ₹ 24,00,000	25%
7.	Above ₹ 24,00,000	30%

2. However, if such person exercises the option under 202(4) of the Act, the rates as provided in Part I-B of the First Schedule shall be applicable.

3. Paragraph A of Part I-B of the First Schedule to the Bill provides following rates of income-tax:—

(i) The rates of income-tax in the case of every individual (other than those mentioned in (ii) and (iii) below) or HUF or every association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in section 2(77)(g) of the Act (not being a case to which Paragraph B, C, D, and E of Part I-B applies) are as under:—

(1)	Upto ₹ 2,50,000	Nil
(2)	From ₹ 2,50,001 to ₹ 5,00,000	5%
(3)	From ₹ 5,00,001 to ₹ 10,00,000	20%
(4)	Above ₹ 10,00,000	30%

(ii) In the case of every individual, being a resident in India, who is of the age of sixty years or more but less than eighty years at any time during the tax year,—

(1)	Upto ₹ 3,00,000	Nil
(2)	From ₹ 3,00,001 to Rs.5,00,000	5%
(3)	From ₹ 5,00,001 to Rs.10,00,000	20%
(4)	Above ₹ 10,00,000	30%

(iii) in the case of every individual, being a resident in India, who is of the age of eighty years or more at any time during the tax year,—

(1)	Upto ₹ 5,00,000	Nil
(2)	From ₹ 5,00,001 to Rs.10,00,000	20%
(3)	Above ₹ 10,00,000	30%

4. The amount of income-tax computed in accordance with the preceding provisions of this Paragraph (including capital gains under section 196, 197 and 198), shall be increased by a surcharge at the rate of,—

(a) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding fifty lakh rupees but not exceeding one crore rupees, at the rate of 10% of such income-tax;

(b) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act)

exceeding one crore rupees but not exceeding two crore rupees, at the rate of 15% of such income-tax;

(c) having a total income (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding two crore rupees but not exceeding five crore rupees, at the rate of 25% of such income-tax;

(d) having a total income (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding five crore rupees, at the rate of 37% of such income-tax;

(e) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding two crore rupees, but is not covered under clauses (c) and (d), shall be applicable at the rate of 15% of such income-tax.

4.1 Provided that in case where the total income includes any dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act, the rate of surcharge on the amount of income-tax computed in respect of that part of income shall not exceed 15%.

4.2 Provided further that in case of an association of persons consisting of only companies as its members, the rate of surcharge on the amount of income-tax shall not exceed 15%.

4.3 Further, for person whose income is chargeable to tax under section 202 of the Act, the surcharge at the rate 37% on the income or aggregate of income of such person (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding five crore rupees shall not be applicable. In such cases, the surcharge shall be restricted to 25%.

5. Marginal relief is provided in cases of surcharge.

B. Co-operative Societies

In the case of co-operative societies, the rates of income-tax have been specified in Paragraph B of Part I-B of the First Schedule to the Bill. These rates will continue to be the same as those specified for FY 2025-26. The amount of income-tax shall be increased by a surcharge at the rate of 7% of such income-tax in case the total income of a co-operative society exceeds one crore rupees but does not exceed ten crore rupees. Surcharge at the rate of 12% of such income-tax shall continue to be levied in case of a co-operative society having a total income exceeding ten crore rupees.

2. Marginal relief is provided in cases of surcharge.

3. On satisfaction of certain conditions, a co-operative society resident in India shall have the option to pay tax at 22% as per the provisions of section 203 of the Act. Surcharge would be at 10% on such tax.

C. Firms

In the case of firms, the rate of income-tax has been specified in Paragraph C of Part I- B of the First Schedule to the Bill. This rate will continue to be the same as that specified for FY 2025-26. The amount of income-tax shall be increased by a surcharge at the rate of 12% of such income-tax in case of a firm having a total income exceeding one crore rupees. However, the total amount payable as income-tax and surcharge on total income exceeding one crore rupees shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

D. Local authorities

The rate of income-tax in the case of every local authority has been specified in Paragraph D of Part I-B of the First Schedule to the Bill. This rate will continue to be the same as that specified for the FY 2025-26. The amount of income-tax shall be increased by a surcharge at the rate of 12% of such income-tax in case of a local authority having a total income exceeding one crore rupees. However, the total amount payable as income-tax and surcharge on total income exceeding one crore rupees shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

E. Companies

The rates of income-tax in the case of companies have been specified in Paragraph E of Part I-B of the First Schedule to the Bill. In case of domestic company, the rate of income-tax shall be 25% of the total income, if the total turnover or gross receipts of the tax year 2024- 25 does not exceed four hundred crore rupees and where the companies continue in section 199 regime. In all other cases the rate of income-tax shall be 30% of the total income. However, domestic companies also have an option to opt for taxation under section 200 of the Act on fulfillment of conditions contained therein. The rate of income-tax rate is 22% in section 200. Surcharge would be at 10% on such tax.

2. In the case of a company other than a domestic company, the rates of income-tax shall be 35% of the total income, on income other than income chargeable at special rates.

3. Surcharge at the rate of 7% shall continue to be levied in case of a domestic company (except those opting for taxation under section 200 and section 201 of the Act), if the total income of the domestic company exceeds one

crore rupees but does not exceed ten crore rupees. Surcharge at the rate of 12% shall continue to be levied, if the total income of the domestic company (except those opting for taxation under section 200 and section 201 of the Act) exceeds ten crore rupees.

4. In case of companies other than domestic companies, the existing surcharge of 2% shall continue to be levied, if the total income exceeds one crore rupees but does not exceed ten crore rupees. Surcharge at the rate of 5% shall continue to be levied, if the total income of the company other than domestic company exceeds ten crore rupees.

5. Marginal relief is provided in surcharge in all cases.

Surcharge on income-tax

The rates of surcharge on the amount of income-tax for the purposes of the Union are specified in Paragraph F of Part I-B of the First Schedule and are the same as that specified for the AY 2025-26. The surcharge shall not apply on income-tax computed on income of specified fund (referred to in Schedule VI [Note 1(g)]) that is chargeable under section 210(1)[Table: Sl. No. 1]. Further, for person whose income is chargeable to tax under section 202 of the Act, the surcharge at the rate of 37% on the income or aggregate of income of such person (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding five crore rupees is not applicable. In such cases the surcharge is restricted to 25%.

Marginal Relief—

Marginal relief has also been provided in all cases where surcharge is proposed to be imposed.

Education Cess—

For tax year 2026-27, “Health and Education Cess on income-tax” is to be levied at the rate of 4% on the amount of income-tax so computed, inclusive of surcharge wherever applicable, in all cases. No marginal relief shall be available in respect of such cess.

III. Rates for deduction of income-tax at source during the financial year (FY) 2026-27 from certain incomes other than “Salaries”.

The rates for deduction of income-tax at source during the FY 2026-27 under the provisions of 393(1)[Table: Sl. Nos. 1(i) and 5], 393(2)[Table: Sl. Nos. 7, 8, 9 and 17] and 393(3)[Table: Sl. Nos. 1, 2 and 3] of the Act have been specified in Part II of the First Schedule to the Bill.

2. For sections specifying the rate of deduction of tax at source, the tax shall continue to be deducted as per the provisions of the relevant sections of the Act.

3. The rates will remain the same as those specified in Part II of the First Schedule to the Finance Act, 2025, for the purposes of deduction of income-tax at source during the FY 2025-26.

4. The surcharge on the amount of income-tax for the purposes of the Union is the same as that specified for the FY 2025-26.

5. "Health and Education Cess on income-tax" shall continue to be levied at the rate of 4% of income tax including surcharge wherever applicable, in the cases of persons not resident in India including company other than a domestic company.

IV. Rates for deduction of income-tax at source from "Salaries", computation of "advance tax" and charging of income-tax in special cases during the FY 2026-27 (Tax Year 2026-27).

The rates for deduction of income-tax at source from "Salaries" or under section 393(1)[Table: Sl. No. 8(iii)] of the Act during the FY 2026-27 and also for computation of "advance tax" payable during the said year in the case of all categories of assessees have been specified in Part III of the First Schedule to the Bill. These rates are also applicable for charging income-tax during the FY 2026-27 on current incomes in cases where accelerated assessments have to be made, for instance, provisional assessment of shipping profits arising in India to non-residents, assessment of persons leaving India for good during the financial year, assessment of persons who are likely to transfer property to avoid tax, assessment of bodies formed for a short duration, etc. The salient features of the rates specified in the said Part III are indicated in the following paragraphs-

A. Individual, HUF, association of persons, body of individuals, artificial juridical person.

With effect from tax year 2026-27, the following rates provided under section 202 of the Act shall be the rates applicable for determining the income-tax payable in respect of the total income of a person, being an individual or Hindu undivided family or association of persons [other than a co-operative society], or body of individuals, whether incorporated or not, or an artificial juridical person referred to in section 2(77)(g) of the Act:—

Sl. No.	*Total income*	*Rate of tax*
1.	Upto ₹ 4,00,000	Nil
2.	From ₹ 4,00,001 to ₹ 8,00,000	5%
3.	From ₹ 8,00,001 to ₹ 12,00,000	10%

Sl. No.	Total income	Rate of tax
4.	From ₹ 12,00,001 to ₹ 16,00,000	15%
5.	From ₹ 16,00,001 to ₹ 20,00,000	20%
6.	From ₹ 20,00,001 to ₹ 24,00,000	25%
7.	Above ₹ 24,00,000	30%

2. However, if such person exercises the option under 202(4) of the Act, the rates as provided in Part III of the First Schedule shall be applicable.

3. Paragraph A of Part III of the First Schedule to the Bill provides following rates of income-tax:—

`The rates of income-tax in the case of every individual (other than those mentioned in (ii) and (iii) below) or HUF or every association of persons or body of individuals, whether incorporated or not, or every artificial juridical person referred to in section 2(77)(g) of the Act (not being a case to which Paragraph B, C, D, and E of Part III applies) are as under:—

(1)	Upto ₹ 2,50,000	Nil
(2)	From ₹ 2,50,001 to ₹ 5,00,000	5%
(3)	From ₹ 5,00,001 to ₹ 10,00,000	20%
(4)	Above ₹ 10,00,000	30%

(ii) In the case of every individual, being a resident in India, who is of the age of sixty years or more but less than eighty years at any time during the tax year,—

(1)	Upto ₹ 3,00,000	Nil
(2)	From ₹ 3,00,001 to Rs.5,00,000	5%
(3)	From ₹ 5,00,001 to Rs.10,00,000	20%
(4)	Above ₹ 10,00,000	30%

(iii) in the case of every individual, being a resident in India, who is of the age of eighty years or more at any time during the tax year,—

(1)	Upto ₹ 5,00,000	Nil
(2)	From ₹ 5,00,001 to Rs.10,00,000	20%
(3)	Above ₹ 10,00,000	30%

4. The amount of income-tax computed in accordance with the preceding provisions of this Paragraph (including capital gains under section 111A, 112 and 112A), shall be increased by a surcharge at the rate of,—

(a) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding fifty lakh rupees but not exceeding one crore rupees, at the rate of 10% of such income-tax;

(b) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding one crore rupees but not exceeding two crore rupees, at the rate of 15% of such income-tax;

(c) having a total income (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding two crore rupees but not exceeding five crore rupees, at the rate of 25% of such income-tax;

(d) having a total income (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding five crore rupees, at the rate of 37% of such income-tax;

(e) having a total income (including the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding two crore rupees, but is not covered under clauses (c) and (d), shall be applicable at the rate of 15% of such income-tax.

4.1 Provided that in case where the total income includes any dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act, the rate of surcharge on the amount of income-tax computed in respect of that part of income shall not exceed 15%.

4.2 Provided further that in case of an association of persons consisting of only companies as its members, the rate of surcharge on the amount of income-tax shall not exceed 15%.

4.3 Further, for person whose income is chargeable to tax under section 202 of the Act, the surcharge at the rate 37% on the income or aggregate of income of such person (excluding the dividend income or capital gains under the provisions of sections 196, 197 and 198 of the Act) exceeding five crore rupees shall not be applicable. In such cases, the surcharge shall be restricted to 25%.

5. Marginal relief is provided in cases of surcharge.

B. Co-operative Societies

In the case of co-operative societies, the rates of income-tax have been specified

in Paragraph B of Part III of the First Schedule to the Bill. These rates will continue to be the same as those specified for FY 2025-26. The amount of income-tax shall be increased by a surcharge at the rate of 7% of such income-tax in case the total income of a co-operative society exceeds one crore rupees but does not exceed ten crore rupees. Surcharge at the rate of 12% of such income-tax shall continue to be levied in case of a co-operative society having a total income exceeding ten crore rupees.

2. Marginal relief is provided in cases of surcharge.

3. On satisfaction of certain conditions, a co-operative society resident in India shall have the option to pay tax at 22% as per the provisions of section 203 of the Act. Surcharge would be at 10% on such tax.

C. Firms

In the case of firms, the rate of income-tax has been specified in Paragraph C of Part III of the First Schedule to the Bill. This rate will continue to be the same as that specified for FY 2025-26. The amount of income-tax shall be increased by a surcharge at the rate of 12% of such income-tax in case of a firm having a total income exceeding one crore rupees. However, the total amount payable as income-tax and surcharge on total income exceeding one crore rupees shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

D. Local authorities

The rate of income-tax in the case of every local authority has been specified in Paragraph D of Part III of the First Schedule to the Bill. This rate will continue to be the same as that specified for the FY 2025-26. The amount of income-tax shall be increased by a surcharge at the rate of 12% of such income-tax in case of a local authority having a total income exceeding one crore rupees. However, the total amount payable as income-tax and surcharge on total income exceeding one crore rupees shall not exceed the total amount payable as income-tax on a total income of one crore rupees by more than the amount of income that exceeds one crore rupees.

E. Companies

The rates of income-tax in the case of companies have been specified in Paragraph E of Part III of the First Schedule to the Bill. In case of domestic company, the rate of income-tax shall be 25% of the total income, if the total turnover or gross receipts of the tax year 2024- 25 does not exceed four hundred crore rupees and where the companies continue in section 199 regime. In all other cases the rate of income-tax shall be 30% of the total income. However, domestic companies also have an option to opt for taxation under section 200 of

the Act on fulfillment of conditions contained therein. The rate of income-tax rate is 22% in section 200. Surcharge would be at 10% on such tax.

2. In the case of a company other than a domestic company, the rates of income-tax shall be 35% of the total income, on income other than income chargeable at special rates.

3. Surcharge at the rate of 7% shall continue to be levied in case of a domestic company (except those opting for taxation under section 200 and section 201 of the Act), if the total income of the domestic company exceeds one crore rupees but does not exceed ten crore rupees. Surcharge at the rate of 12% shall continue to be levied, if the total income of the domestic company (except those opting for taxation under section 200 and section 201 of the Act) exceeds ten crore rupees.

4. In case of companies other than domestic companies, the existing surcharge of 2% shall continue to be levied, if the total income exceeds one crore rupees but does not exceed ten crore rupees. Surcharge at the rate of 5% shall continue to be levied, if the total income of the company other than domestic company exceeds ten crore rupees.

5. Marginal relief is provided in surcharge in all cases.

6. In other cases [including section 170(5) and 352], the surcharge shall be levied at the rate of 12%

7. For FY 2026-27, additional surcharge called the “Health and Education Cess on income-tax” shall be levied at the rate of 4% on the amount of tax computed, inclusive of surcharge (wherever applicable), in all cases. No marginal relief shall be available in respect of such cess.

Amendments relating to Definitions

1. Rationalisation of certain terms for treasury centres in IFSC [Section 2(40)] [w.e.f. Tax Year 2026-27]

Exiting Clause (40) of the section 2 inter alia provides the definition of dividend. Sub- clause (v) to long line of clause (40) provides that dividend does not include any advance or loan between two group entities, where, —

(A) one of the group entities is a “Finance company” or a “Finance unit”; and

(B) the parent entity or principal entity of such group is listed on stock exchange in a country or territory outside India other than the country or territory outside India as may be specified by the Board in this behalf;

In order to rationalise the said provision, it is proposed to amend the sub-clause (v) to long line of clause (40) to inter alia provide that, the other group entity to the transaction shall also be located in a country or territory outside India which shall be a notified jurisdiction, Also, the parent entity or the principal entity of such group is listed on stock exchange in a country or territory outside India; and for such purposes the country or territory outside India shall be specified by the Central Government, by notification in the Official Gazette.

For the purposes of aforementioned provisions, it is also proposed to define the following terms, namely: —

(a) "group entity" shall have the same meaning as assigned to the expression "group entities" in clause (m) of sub-regulation (1) of regulation 2 of the International Financial Services Authority (Payment Services) Regulations, 2024 made under the International Financial Services Centres Authority Act, 2019;

(b) "parent entity" or "principal entity" in relation to one or more other group entities, shall be an entity of which other group entities are subsidiary and such entity,

  (i) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiaries; or

  (ii) controls the composition of the Board of Directors.

Amendments relating to Incomes which do not form part of total income

2. Exemption on interest income under the Motor Vehicles Act, 1988 [Section 11, Schedule III] [w.e.f. Tax Year 2026-27]

Exiting section 11 of the Income-tax Act, 2025 *inter alia* provides for the exemption of income of persons included in Schedule III subject to the fulfilment of conditions specified therein.

The provisions of Motor Vehicles Act, 1988 inter alia provides for compensation and interest on such compensation to be awarded by the tribunal under said Act, to an individual or his legal heir, on account of death or on account of permanent disability or any bodily injury under the said Act.

In order to alleviate sufferings of victims of such accident and their family which may cause extreme hardship to the aggrieved person and family, it is proposed to amend the said Schedule to provide exemption to an individual or his legal heir, on any income in the nature of interest under the Motor Vehicles Act, 1988.

3. Exemption of income on compulsory acquisition of any land under the RFCTLARR Act [Section 11, Schedule III] [w.e.f. Tax Year 2026-27]

Existing Section 11 read with Schedule III of the Act provides exemption to certain eligible persons on their total income. The said Schedule inter alia provides exemption to an individual or a Hindu undivided family on any income chargeable under the head "capital gains" arising from the transfer of agricultural land subject to the conditions specified therein.

Section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act) inter alia provides that income- tax shall not levied on any award or agreement made (except those made under section 46) under the said Act.

In order to resolve any ambiguity, CBDT vide Circular No.36/2016 clarified that compensation received in respect of award or agreement which has been exempted from levy of income-tax vide section 96 of the RFCTLARR Act shall also not be taxable under the provisions of Income-tax Act, 1961 even if there are no specific provisions of exemption for such compensation in the Income-tax Act, 1961.

In order to align the provisions of the Act with the RFCTLARR Act it is proposed to amend the said Schedule to provide exemption on any income in respect of any award or agreement made on account of compulsory acquisition of any land, carried out on or after the 1st April, 2026, under the RFCTLARR Act (other than the award or agreement made under section 46 of said Act).

4. Exemption for Disability Pension to armed force personnel [Section 11, Schedule III, Sl. No. 38A inserted] [w.e.f. Tax Year 2026-27]

Disability pension is granted to members of the Armed Forces who are invalided out of service on account of a bodily disability that is attributable to, or aggravated by, military, naval or air force service, and comprises a service element and a disability element. The exemption was first provided under the Indian Income-tax Act, 1922. This has continued under the Income-tax Act 1961 through the repeal and savings clause, and notifications, administrative instructions and clarificatory circulars.

It is proposed to provide for exemption of disability pension, including both the service element and the disability element, only in cases where the individual has been invalided out of Armed Forces service on account of a bodily disability attributable to, or aggravated by, such service, and not where the individual has retired on superannuation or otherwise. It is also proposed that this exemption will also be available to paramilitary personnel.

5. Exemption to a foreign company on any income arising in India by way of procuring data centre services from a specified data centre [Section 11, Schedule IV] [w.e.f. Tax Year 2026-27]

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

In order to attract investment in data centre and promote artificial intelligence data centre framework in India, it is proposed to amend the Schedule IV to provide exemption to a foreign company, on any income accruing or arising in India or deemed to accrue or arise in India by way of procuring data centre services from a specified data centre, for a period upto tax year ending on 31st March, 2047.

One of the conditions for exemption is that where services are provided to India users by the foreign company, it shall be routed through an Indian reseller entity.

For the purposes of above provisions, it is also proposed to define the following terms, namely:

(a) "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;

(b) "data centre services" means services provided by a data centre through the use of physical infrastructure including land, buildings, mechanical electrical power equipment's, cooling system, security and information technology infrastructure including servers, computers, storage systems, operating systems, security solutions, network and associated software platforms, networking and other equipment, human resource in India;

(c) "specified data centre" means a data centre which—

(i) 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

(ii) is owned and operated by an Indian company.

6. Exemption to a foreign company on income arising on account of providing capital equipment etc. to an electronic goods manufacturer located in a custom bonded area [Section 11, Schedule IV, Sl. No. 13A inserted] [w.e.f. Tax Year 2026-27]

The existing provisions of section 11 read with Schedule IV of the Income-tax Act

specifies the eligible income, which shall not be included in the total income of the eligible non-residents, foreign companies and other such persons.

In order to promote manufacturing of electronic goods by a contract manufacturer and provide certainty on taxation of supply of capital equipment by a foreign company to such manufacturer, it is proposed to amend the Schedule IV to provide exemption to a foreign company for a period upto the tax year 2030-2031, on any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India, who is located in a custom bonded area (warehouse referred to in section 65 of the Customs Act, 1962) and produces electronic goods on behalf of such foreign company for a consideration.

7. Exemption to non-residents for rendering services under a notified Scheme in India [Section 11, Schedule IV, Sl. No. 13B inserted] [w.e.f. Tax Year 2026-27]

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

In order to provide tax certainty to a non-resident individual visiting India for rendering certain services in connection with any notified Scheme of the Central Government, it is proposed to amend the said Schedule to provide exemption to an individual, being a non-resident for a period of five consecutive tax years immediately preceding the tax year during which he visits India for the first time for rendering services, on any income which accrues or arises outside India, and is not deemed to accrue or arise in India, for five consecutive tax years commencing from the first tax year during which he visits India, if such person renders any service in India in connection with any Scheme as may be notified by the Central Government and fulfils such other conditions as may be prescribed.

Amendments relating to Computation of total income—Income from House Property

8. Correction in provisions relating to Income from House Property [Sections 21(5), 22(2)] [w.e.f. 01.04.2026]

Correction is proposed to be made in section 21(5) of the Income-tax Act, 2025 to align with the corresponding provision of Income-tax Act, 1961 so as to provide that annual value of property held as stock-in-trade to be taken as nil upto two year from the end of the financial year in which certificate of completion of construction is obtained from the competent authority.

Section 22 of the Act deals with deductions in the case of income from house property. Further, section 22(2) provides that, the aggregate amount of deduction in the case of self-occupied property shall not exceed Rs. 2 lakh where property is acquired or constructed with borrowed capital. However, this ceiling of Rs. 2 lakhs has not included the deduction of prior-period interest payable for the acquisition or construction of property.

It is pertinent to mention that section 22 of the Act corresponds to section 24 of the Income-tax Act, 1961. In the Income-tax Act, 1961, aggregate amount of deduction for the interest on the borrowed capital was inclusive of prior period interest payable

In this regard, it is proposed to amend section 22(2) of the Act so as to provide that aggregate amount of deduction for interest on borrowed capital shall be inclusive of prior- period interest payable.

Amendments relating to Computation of total income—Income from Business or Profession

9. Rationalising the due date to credit employee contribution by the employer to claim such contribution as deduction [Section 29(1)(e)(i)] [w.e.f. Tax Year 2026-27]

Section 29 of the Act provides for deductions related to employee welfare. Clause (e)(i) of sub-section (1) of the said section provides for deduction of any amount of contribution received by the assessee being an employer, from an employee to which the provisions of section 2(49)(o) apply, if such amount is credited by the assessee to the account of the employee in the relevant fund or funds by the due date.

For the purposes of said clause, “due date” means the date by which the assessee is required as an employer to credit employee contribution to the account of an employee in the relevant fund under any Act, rule, order or notification issued under it or under any standing order, award, contract of service or otherwise.

It is proposed to amend section 29(1)(e) to provide that the due date for the said clause shall be the due date of filing of return of income under section 263(1) of the Act.

10. Allowing expenditure on prospecting of critical minerals as deduction [Section 51, Schedule XII] [w.e.f. Tax Year 2026-27]

Section 51 of the Act provides for tax deductibility of expenses incurred by an Indian company or resident taxpayers (other than companies) engaged in any

operations relating to prospecting or extraction or production of the minerals mentioned in Part A and Part B of the Schedule XII of the Act. This section allows deduction, on deferred basis (over a span of 10 years from the year of commercial production of any specified mineral), in respect of expenses incurred wholly and exclusively on operations relating to prospecting or on the development of mine or other natural deposit of specified minerals incurred at any time during the year of commercial production and any one or more of the four years immediately preceding the year of commercial production.

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

11. Providing definition of "commodity derivative" [Section 66] [w.e.f. 01.04.2026]

Section 66(33) of the Act provides for definition of "specified derivative transaction". The said definition uses the term "commodity derivative". The term "commodity derivative" has been defined in the Income-tax Act, 1961, however, it is not defined in the Income-tax Act, 2025.

To align with the provisions of Income-tax Act, 1961, it is proposed to provide definition of "commodity derivative" as has been provided in the said Act.

12. Allowing deduction to non-life insurance business when TDS, not deducted earlier is paid later [Schedule XIV] [w.e.f. Tax Year 2026-27]

Part B of Schedule XIV of the Act provides for computation of profits and gains from insurance business other than life insurance. Paragraph 4(1)(a) of Schedule XIV provides that while computing the profits and gains of such business, any expenditure, allowance, etc. which has been debited to profit and loss account but which is inadmissible under sections 28 to 54 shall be added back to the profits and gains.

Section 35(b)(i) and (ii) of the Act provides that any sum, interest, etc. payable on which tax is deductible at source but has not been deducted or deducted but not paid within the due date specified in section 263(1), then the amount as mentioned in the respective sections shall not be allowed as deduction. However, section 35(b)(i) and (ii) also provide that the amount disallowed shall be allowed in a tax year when the due tax was deducted and paid as per the provisions of the section.

Paragraph 4(2) of Schedule XIV provides that any amount payable under section 37 of the Act, which is added under paragraph 4(1)(a) shall be allowed as deduction in the tax year in which it has been actually paid. However, similar

provision has not been provided for section 35(b)(i) and 35(b)(ii), wherein the amount added under paragraph 4(1)(a) shall be allowed as deduction in which tax has been deducted and paid as per the provisions of the said section.

Thus, to rationalize the same and provide for allowance of such amount as deduction in a subsequent tax year, it is proposed that a new sub-paragraph may be inserted in Paragraph 4.

Amendments relating to Computation of total income— Capital Gains

13. Exemption for Sovereign Gold Bond [Section 70(1)(x)] [w.e.f. Tax Year 2026-27]

The provisions of section 70(1)(x) of the Act provide an exemption from capital gains tax in respect of income arising from redemption of Sovereign Gold Bonds issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015. Sovereign Gold Bonds have been issued by the Reserve Bank of India on a recurring basis through multiple series notified from time to time, each constituting a separate issuance.

In order to ensure uniform application of the exemption across all such issuances and to align the provision with its intended scope, it is proposed to amend section 70(1)(x) to provide that the exemption shall be available only where the Sovereign Gold Bond is subscribed to by a subscriber at the time of original issue and is held continuously until redemption on maturity, for all Sovereign Gold Bonds issued by the Reserve Bank of India from time to time.

14. Taxation of buyback of shares [Section 69] [w.e.f. Tax Year 2026-27]

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

It is proposed to rationalise the taxation of share buy-backs by providing that consideration received on buy-back shall be chargeable to tax under the head “Capital gains” instead of being treated as dividend income. Further, having regard to the distinct position and influence of promoters in corporate decision-making, particularly in relation to buy-back transactions, it is proposed that, in the case of promoters, the effective tax liability on gains arising from buy-back shall be 30%, comprising tax payable at the applicable rates together with an additional tax. In case of promoter companies, the effective tax liability will be 22%.

Where the shareholder or holder of other specified securities is a promoter, the aggregate income-tax payable on such capital gains shall be—

(a) the income-tax payable on such capital gains in accordance with the provisions of this Act; and

(b) an additional income tax in respect of capital gains specified in column B of the Table below, computed at the rate specified in column C or column D of the said Table.

Table

Sl. No.	*Income*	*Rate, where the promoter is a domestic company*	*Rate, where the promoter is other than a domestic company*
A	*B*	*C*	*D*
1.	Short-term capital gains referred to in section 196 arising from the transfer of such securities.	2%	10%
2.	Long-term capital gains referred to in section 197 or section 198 arising from the transfer of such securities.	9.5%	17.5%

For the purposes of this section,—

(a) in the case of a company whose shares are listed on a recognised stock exchange in India, 'promoter' shall have the same meaning as assigned to it in regulation 2(k) of the Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018 made under the Securities and Exchange Board of India Act, 1992;

(b) in any other case, "promoter" means,—

(i) a "promoter" as defined in section 2(69) of the Companies Act, 2013; or.

(ii) a person who holds, directly or indirectly, more than 10% of the shareholding in the company;

(c) "specified securities" shall have the same meaning as assigned to it in Explanation 1 to section 68 of the Companies Act, 2013.

Amendments relating to Computation of total income—Income from other sources

15. Non-allowability of Interest as a deduction against Dividend Income [Section 93(2)] [w.e.f. Tax Year 2025-26]

Dividend income and income from units of mutual funds constitute passive investment receipts taxable under the head "Income from other sources" under the Income- tax Act, 2025. Section 93 of the Act provides for allowing certain deductions against such income, i.e interest expenditure incurred for earning such income, subject to a ceiling of 20% of the gross dividend or income from units of mutual funds.

It is proposed to amend section 93(2) to provide that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds.

Amendments relating to Income of other persons included in total income of assessee

16. Correction of referencing error [Section 99(2)] [w.e.f. 01.04.2026]

Section 99(1)(a)(i) of the Act provides that income of individual to include income of spouse by way of salary, commission etc., from a concern in which the individual has a substantial interest.

Section 99(1)(a)(ii) provides that income of individual to include income arising to the spouse from assets transferred.

Section 99(2) deals with proportion of income to be included in the hands of individual where asset is transferred. However, in section 99(2) inadvertently reference of 99(1)(a)(i) has been given instead of 99(1)(a)(ii).

To correct the aforesaid referencing error, it is proposed to correct section 99(2) to give correct reference of 99(1)(a)(ii).

Amendments relating to Deductions to be made in Computing Total Income

17. Extension of period of deduction for units in IFSC and rationalization of tax rate [Section 147] [w.e.f. Tax Year 2026-27]

The provisions of section 147 provide for deduction of 100% on certain incomes to the units of IFSC and OBUs. This is available for 10 consecutive years out of

15 years for units in IFSC and 10 consecutive years for OBUs.

To increase the competitiveness of IFSC, it is proposed to increase the period of deduction to 20 consecutive years out of 25 years for units in IFSC and 20 consecutive years for OBUs. It is also proposed that the business income of these units from IFSC after the expiry of period of deduction will be taxed at rate of 15%.

18. Widening scope of deduction under section 149 by including ancilliary activities of cattle feed and cotton seeds [Section 149(2)(b)] [w.e.f. Tax Year 2026-27]

The existing provisions under section 149(2)(b) of the Act provide for deduction of whole of the amount of profits and gains of business in the case of a co-operative society, being a primary society engaged in supplying milk, oilseeds, fruits, or vegetables raised or grown by its members to a federal co-operative society, engaged in the same business or to the Government or a local authority; or to a Government company or a corporation engaged in the same business. There are similar activities such as supplying of cattle feed and cotton seeds which are also undertaken by the members of the primary co-operative society. It is proposed that the profits and gains of business from these activities shall be allowed as a deduction within the ambit of section 149(2)(b) of the Act.

19. Deductions in respect of dividends received and distributed by certain cooperative societies [Section 149(2)(d)] [w.e.f. Tax Year 2026-27]

The provisions of section 149(2)(d) of the Act provide for deduction on the income of a cooperative society that is received as interest or dividend from any other co-operative society. This deduction is allowed only in the old tax regime. The dividends received by a cooperative society from a company are taxed in the hands of the cooperative society.

It is proposed to allow deduction on dividends received by cooperative societies from other cooperative societies, to the extent such dividends are distributed to its members, in the new tax regime.

It is also proposed to allow deduction for dividends received by notified federal cooperatives from companies for 3 years, i.e. till tax year 2028-29 under both the old and new tax regimes. This deduction is proposed to be allowed only to the dividends arising out of investments made by the federal cooperative till 31.01.2026 and which are further distributed by it to its members.

20. Inclusion of Cooperatives registered under Multi-State Cooperative Societies Act, 2002 in the definition of co-operative society' [w.e.f. Tax Year 2026-27]

A '*co-operative society'* is defined as a co-operative society registered under the Co- operative Societies Act, 1912, or under any other law in force in any State or Union territory for the registration of co-operative societies under the existing provisions of section 2(32) of the Act.

It is proposed to include the Co-operative societies which are registered under the "Multi-State Cooperative Societies Act, 2002," within the definition of co-operative society under the Act.

Amendments relating to Special provisions relating to avoidance of tax

21. Amendment of section 169 of the Income-tax Act, 2025 relating to providing effect to advance pricing agreements [Section 168(1)] [w.e.f. Tax Year 2026-27]

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

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

22. Clarifying the manner of computation of sixty days for passing the order by the Transfer Pricing Officer [Section 92CA(3A) of Income Tax Act, 1961 w.r.e.f. 1.6.2007 and Section 166 of Income Tax Act, 2025 w.e.f. 1.4.2026]

Section 92CA of the Income-tax Act, 1961 deals with the case where assessee,

has entered into an international transaction or specified domestic transaction in any previous year, and the Assessing Officer (AO) may refer the computation of the arm's length price in relation to the said international transaction or specified domestic transaction under section 92C to the Transfer Pricing Officer (TPO).

Section 92CA(3A) states that TPO is required to pass an order before 60 days prior to the date on which period of limitation under section 153, or as the case may be, in section 153B for making the order of assessment or reassessment or recomputation or fresh assessment, as the case may be, expires.

There has been considerable litigation in courts as to how the period of sixty days referred in section 92CA(3A) is required to be computed. The intent of the legislature has always been to include the date of limitation in the computation of sixty days. However, the courts have annulled number of assessments holding that period of sixty days does not include the date of limitation and therefore assessments which have lawfully made by the Transfer Pricing Officer with clearly sixty days remaining for completion of final assessment as per section 153 or 153B as the case may be, have been struck down, though the legislative intent is otherwise.

The Income-tax Act, 2025 is coming into force from the 1st of April, 2026. The objective of the new law has been to provide simplicity in language and provisions so as to avoid interpretational issues and prevent litigation. Therefore, there is an urgent need to clarify the position of law in the new Income-tax Act, 2025. The intention of the legislature also needs to be clearly laid out in the Income-tax Act, 1961 so that the intent is uniformly reflected in the two Acts.

Accordingly, notwithstanding anything contained in any judgment, order or decree of court, it is proposed to be clarified in section 92CA(3A) as to how the period of sixty days is required to be computed. Suitable amendments are also proposed to be carried out in the Income-tax Act, 2025 so that correct interpretation is taken, litigation is minimized and certainty is achieved.

Amendments relating to Determination of tax in special cases

23. Rationalization of Minimum Alternate Tax provisions [Section 206] [w.e.f. Tax Year 2026-27]

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

the MAT is higher than the income-tax payable on the company's total income computed under normal tax provisions, the assessee pays MAT.

When a company pays MAT when it is higher than regular tax, the excess amount paid is allowed as a tax credit. This credit can be carried forward up to 15 years and set off in future years where the company's regular tax liability exceeds the MAT liability. The MAT regime is presently in place only for the old tax regime.

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

These amendments will allow companies to make a smooth transition from the old tax regime (with deductions and exemptions) to the new tax regime.

24. Exclusion of specified business of Non-residents which are under presumptive taxation from the applicability of Minimum Alternate Tax [Section 206] [w.e.f. Tax Year 2026-27]

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

In order to ensure similar treatment among all the different specified businesses of non-residents opting for presumptive taxation, it is proposed that two other specified businesses (business of operation of cruise ships and the business of providing services or technology for the setting up an electronics manufacturing facility in India to a resident company) shall also be excluded from the applicability of MAT

Amendments relating to Income of shipping companies

25. Amendments in Chapter XIII-G for giving effect to extension of Tonnage tax scheme to Inland Vessels [Section 227, 228, 232, 235] [w.e.f. Tax Year 2026-27]

Chapter XIII-G of the Act provides for special provisions relating to income of shipping companies. Vide Finance Act, 2025, benefit of tonnage tax scheme under the said Chapter was extended to Inland vessels registered under Inland Vessels Act, 2021 to promote the inland water transportation.

Certain modifications are required in provisions of the said Chapter for aligning them with the Inland Vessels Act, 2021, and rules made thereunder in order to give effect to Tonnage tax scheme extended to inland vessels.

In view of the above, it is proposed to make the following amendments: -

(I) Section 227 of the Act relates to computation of tonnage income. Sub-section 4 of the said section provides that the tonnage shall mean the tonnage of a ship or inland vessel, as the case may be, indicated in the certificate referred to in sub-section (9) of the said section. It is proposed to replace the term “certificate” with “valid certificate” in sub-section (4)(a) of the said section for providing clarity.

(II) Section 227(9)(b)(iii) of the Act provides that in the case of inland vessel registered in India, valid certificate is defined as a certificate issued under the Inland Vessels Act, 2021. However, representation was received that no separate Tonnage Certificate is issued under the Inland Vessels Act, 2021 and “Certificate of registration” issued under the Inland Vessels Act, 2021 states the Net Tonnage of the vessel. Accordingly, the word “certificate” is proposed to be replaced with “certificate of registration” issued under the Inland Vessels Act, 2021 in the aforesaid provision.

(III) Section 228 of the Act relates to relevant shipping income and exclusion from book profit. Sub-section (3)(b)(ii)(A) of the said section provides that on-board or on-shore activities of passenger ships would be included in the core activities of a tonnage company. It is proposed to amend the said provision to bring inland vessels under its purview.

(IV) Section 232 of the Act relates to certain conditions for applicability of tonnage tax scheme. Sub-section (12) of the said

section provides that a tonnage tax company shall comply with the minimum training requirement in respect of trainee officers as per the guidelines issued by the Director-General of Shipping and notified by the Central Government. It is proposed to amend sub-section (12) to insert reference to guidelines related to minimum training requirements in case of inland vessels issued by Inland Waterways Authority of India and notified by the Central Government.

(V) Sub-section (13) of the section 232 of the Act states that a tonnage tax company is required to furnish a copy of the certificate issued by the Director-General of Shipping to the effect that such company has complied with the minimum training requirement as per the relevant guidelines along with the return of income under section 263. Since the designated authority for vessels under Merchant Shipping Act, 1958 and the Inland Vessels Act, 2021 differ, it is proposed to amend the said sub-section to refer to the designated authority in respect of inland vessels.

(VI) Sub-section (17) of the section 232 of the Act provides that the average of net tonnage shall be computed in the manner prescribed, in consultation with the Director-General of Shipping. It is proposed to amend sub-section (17) to add reference to Inland Waterways Authority of India, in case of inland vessels.

(VII) Section 235 relating to definitions pertaining to Chapter XIII-G is also proposed to be amended to provide for definition of "Inland Waterways Authority of India

Amendments relating to Return of Income

26. Rationalising due dates for filing of return of Income [Section 263 of Income-tax Act, 2025 w.e.f. Tax Year 2026-27, Section 139(1) of Income-tax Act, 1961, w.e.f. A.Y. 2026-27]

Section 263 of the Income Tax Act, 2025 makes the provisions for filing of Income Tax Return by taxpayers. The said section deals with the comprehensive framework that lays down class of persons who are required to file a return, the due dates, and the different types of returns that may be furnished. It covers the original return, belated return, revised return and the updated return.

Section 263(1)(c) of the Act deals with "due date" means the date of the financial year succeeding the relevant tax year for filing the return of Income by

different classes of assessee/person with different condition applied therein. In this regard, in order to facilitate the taxpayers who are engaged in business or profession and partners of a firm who do not require to get their books of account audited and trusts, it is proposed that more time should be made available to them to prepare their books of accounts to make the necessary compliances. Accordingly, rationalisation of due dates for filing of return of Income in such non audit business cases and trusts is envisaged to facilitate taxpayers and reduce grievances.

In this regard, assessee having income from profits and gains of business or profession whose accounts are not required to be audited under this Act or under any other law in force and partner of a firm whose accounts are not required to be audited under this Act or under any other law in force or the spouse of such partner (if section 10 applies to such spouse), their due date for filing of return is proposed to be extended from 31st July to 31st August. Further, individuals who files ITR-1 & ITR-2, their due date for filing return of Income shall remain 31st July. In this regard, amendments proposed in section 263(1)(c) of the Act are as under:

Sl. No.	**Person**	**Conditions**	**Due date**
A	**B**	**C**	**D**
1.	Assessee, including the partners of the firm or the spouse of such partner (if section 10 applies to such spouse).	Where the provisions of section 172 apply	30th November.
2.	(i) Company; (ii) Assessee (other than a company) whose accounts are required to be audited under this Act or under any other law in force; (iii) Partner of a firm whose	Where the provisions of section 172 do not apply	31st October.
	accounts are required to be audited under this Act or under any other law in force; or the spouse of such partner (if section 10 applies to such spouse).		
3.	(i) Assessee having income from profits and gains of business or profession whose accounts are not required to be audited under this Act or under any other law in force;	As above	31st August.

Sl. No.	Person	Conditions	Due date
A	**B**	**C**	**D**
	(ii) Partner of a firm whose accounts are not required to be audited under this Act or under any other law in force or the spouse of such partner (if section 10 applies to such spouse).		
4.	Any other assessee	--	31st July.

Similar rationale as referred in para 2 has been applied to make similar amendments in Explanation-2 to sub-section (1) of section 139 of Income-tax Act, 1961 to extend the due date of filing return of Income for non-audit business cases and Trusts requiring no audits.

27. Extending the period of filing revised return [Section 263(5) of Income-tax Act, 2025 w.e.f. Tax Year 2026-27, Section 139(5) of Income-tax Act, 1961 w.e.f. A.Y. 2026-27]

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

Further, section 263(5) of the Act provides for the revised return of income. It allows a person who has already furnished a return under section 263(1) and (4) to file a revised return, if any omission or wrong statement is discovered in the original or belated return.

Such revised return required to be furnished within nine months from the end of the relevant tax year or before completion of assessment, whichever is earlier.

Section 263(5) allows a taxpayer to revise an original or belated return to rectify any omission or wrong statement, relating to income, deductions, exemptions, losses, or any other particulars.

It is considered to increase the prescribed time limit for filing the revised return from existing 9 months to 12 months from the end of the relevant tax year. As presently, the timeline for revised and belated return coincides with each other which is nine months from the end of the relevant tax year. Hence, a person who is filing his belated return at the end was not having the opportunity to revise his return of income. The extension of time limit for filing revised return of income, will allow the taxpayers to file revised return where belated return is filed at the end.

In this regard, it is proposed to amend section 263(5) of the Act so as to increase the prescribed time limit for filing the revised return from its existing time limit of nine months to twelve months from the end of the relevant tax year. Further, a fee is also proposed under section 428(b), for revised returns which are filed beyond nine months from the end of relevant tax year.

28. Scope of filing of updated return in the case of reduction of losses – reg. [Section 263(6) of Income Tax Act, 2025 w.e.f. 1.4.2026, Section 139(8A) of Income Tax Act, 1961 w.e.f. A.Y. 2026-27]

Section 263 of the Income Tax Act, 2025 provides for filing of Income Tax Return by taxpayers. The said section deals with the comprehensive framework that lays down class of persons who are required to file a return, the due dates, and the different types of returns that may be furnished. It covers the original return, belated return, revised return and the updated return.

Further, section 263(6) of the Act deals with the updated return of Income. It allows a taxpayer, whether or not a return was furnished earlier, to file an updated return within 48 months from the end of the financial year succeeding the relevant tax year. The said section further imposes certain restrictions on updating the return of Income. E.g. updated return cannot be a return of loss, cannot reduce tax liability, and cannot increase a refund. Filing an updated return requires payment of additional income-tax, as prescribed, and it is not permitted in cases where assessment, reassessment, search, survey, or prosecution proceedings are pending or completed.

Furthermore, section 263(6)(b) provides that taxpayer may file the updated return in such cases where original return filed under section 263(1) of the Act is a return of loss and updated return being filed thereafter, is a return of income. However, section 263(6)(c)(i) of the Act had created a restriction that updated return cannot be furnished in such cases where updated return is a return of loss for the said tax year.

In this regard, suggestions were received from the stakeholders that updated return may also be allowed in such cases where taxpayer is reducing the amount of loss in comparison to the amount of loss claimed in the return of loss furnished within the due date specified under sub-section (1).

In view of the above, it is proposed to amend section 263(6) of the Act, so as to allow filing of updated return in such cases where taxpayer reduces the amount of loss in comparison to the amount of loss claimed in the return of loss furnished within the due date specified under sub-section (1).

29. Allowing the filing of updated return after issuance of notice of reassessment [Section 263 of Income Tax Act, 2025, w.e.f. 01.04.2026, Section 139(8A) of Income Tax Act, 1961 w.e.f. A.Y. 2026-27]

Section 263 of the Income Tax Act, 2025 makes the provisions for filing of Income Tax Return by taxpayers. The said section deals with the comprehensive framework that lays down class of persons who are required to file a return, the due dates, and the different types of returns that may be furnished. It covers the original return, belated return, revised return and the updated return.

Further, section 263(6) of the Act deals with the updated return of Income. It allows a taxpayer, regardless of whether the original return is filed, to file an updated return within 48 months from the end of the financial year succeeding the relevant tax year. This provision is meant to promote voluntary compliance on the part of taxpayer to offer the income for taxation. The said section further imposes certain restrictions on updating the return of Income. i.e. updated return cannot be a return of loss, cannot reduce tax liability, and cannot increase a refund. Filing an updated return requires payment of additional income-tax, as prescribed, and it is not permitted in cases where assessment, reassessment, search, survey, or prosecution proceedings are pending or completed.

Furthermore, Section 263(6)(c)(v) of the Act prohibits the filing of updated return in such cases where any proceedings for assessment or reassessment or recomputation or revision of income is pending or has been completed for the said tax year. Accordingly, filing of update return was not allowed in such cases where proceedings of reassessment has been initiated.

Section 267(5) of the Act provides that additional income-tax amounting to 25%, 50%, 60% and 70% of the aggregate of tax and interest payable, shall be paid alongwith original tax and interest payable, for filing the updated return in first, second, third and fourth year, respectively from the end of the financial year succeeding the relevant tax year.

In this regard, it is considered that updated return may also be allowed in such cases where proceedings of reassessment have been initiated and notice of reassessment has been issued under section 280 of the Act as the same would reduce litigation.

In this regard, it is proposed to amend section 263 of the Act, so that an updated return may be furnished by a person for the relevant tax year in pursuance of a notice under section 280 within such period as specified in the said notice and in such a case assessee shall be precluded from filing return of income in pursuance of notice under section 280 in any other manner.

It is further proposed to amend the section 267 of the Act so as to prescribe that where an updated return is filed in pursuance of a notice issued under section 280 within the period specified in the said notice, the additional income-tax payable shall be increased by a further sum of 10 % of the aggregate of tax and interest payable on account of furnishing the updated return. It is further proposed that where additional income-tax is paid as per proposed additional income-tax, the income on which such additional income-tax is paid shall not form the basis of imposition of penalty under section 439.

Amendments relating to Procedure for assessment of search cases

30. Rationalizing the period of block in case of other persons [Section 295] [w.e.f. 01.04.2026]

Section 295 of the Act, provides, inter-alia, that where Assessing officer is satisfied that any undisclosed income belongs to or pertains to or relates to any person (herein after referred to as the 'other person'), other than the person (herein after referred to as the 'specified person') with respect to whom search was initiated under section 247 or requisition was made under section 248, then–

(a) any money, bullion, jewellery, virtual digital asset or other valuable article or thing or any books of account or other documents seized or requisitioned or any other material or information relating to the aforesaid undisclosed income will be handed over to the Assessing Officer having jurisdiction over such other person; and

(b) Assessing Officer of the other person shall proceed under section 294 against such other person and the provisions of this section will apply accordingly.

Furthermore, in the existing provisions of Block assessment, the block period is same for the specified person or other person.

In this regard, it has been considered that where undisclosed income pertaining to a third person relates only to a single tax year, the third person is nonetheless required to undergo the full block assessment procedure, resulting in an increased compliance burden on a person against whom no search or requisition was initiated.

Accordingly, it is proposed to amend the section 295(2) of the Act so as to limit the period of block in case of third party

31. Referencing the time limit to complete block assessment to the initiation of search or requisition [Section 296] [w.e.f. 01.04.2026]

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

Further, it is considered that use of last date of authorisations as reference for deciding date of limitation lead to different date of limitations in case of group being searched. As search and seizure proceedings are more often conducted in a group of cases which require coordinated investigation and assessments.

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

Amendments relating to Assessment

32. Clarification regarding jurisdiction to issue notice u/s 148 where income has escaped assessment and for carrying out pre-assessment procedure u/s 148A [Section 148 of Income-tax Act, 1961 w.r.e.f. 01.04.2021, Section 279 of Income Tax Act, 2025 w.e.f. 01.04.2026]

Income-tax Act, 1961 provides a two-step procedure for carrying out reassessment under section 147. The first step provides for procedure before a notice under section 148 is issued for carrying out reassessment. This first step starts with a notice under section 148A which enables the Assessing Officer to carry out enquiries so as to determine whether the case is fit for issuance of notice under section 148. The notice under section 148 is accompanied with an reasoned order under section 148A(d)/148A(3) by the Assessing Officer.

With the notice under section 148, the case gets transferred to the National Faceless Assessment Centre (NaFAC) for carrying out the assessment in a faceless manner as per section 144B. The taxpayer does not know the identity of officers who are part of the assessment unit in NaFAC. All communications with the tax-payer at this stage are carried out by NaFAC. The assessment units is provided powers of the Assessing Officer by virtue of section 144B(3) which provides that “assessment unit” wherever used in said section shall refer to an Assessing Officer having powers so assigned by the Central Board of Direct Taxes (CBDT).

It is clear from the aforesaid scheme of the Act that the legislature has clearly demarcated the line between assessment and pre-assessment enquiry process which culminates in issuing of notice under section 148. The Assessing officer carries out pre-assessment enquiry and therefore reaches a conclusion if it is a fit case of reassessment. This satisfaction is reflected in intimation to the assessee by way of notice under section 148. Thereafter, the proceedings are carried out in a faceless manner by NaFAC.

Accordingly, it was never the intention of the legislature to mandate the NaFAC or the Assessment Units in NaFAC to involve pre-assessment enquiry in any manner whether for issuance of notice under section 148A or under section 148. The faceless assessment for reassessment under section 147 was only required to be carried out to the extent provided under section 144B. The intended objective of the scheme framed under section 151A that is e-Assessment of Income Escaping Assessment Scheme, 2022 was also the same.

However, divergent views have been expressed on this issue by various High Courts, some in favour of the revenue and some in assessee's favour. The matter is now pending in Hon'ble Supreme Court. The present amendment seeks to achieve certainty and clarity and avoid litigation.

The Income-tax Act, 2025 is coming into force from the 1st of April, 2026. The objective of the new law has been to provide simplicity in language and provisions so as to avoid interpretational issues and prevent litigation. Therefore, there is an urgent need to clarify the position of law in the new Income-tax Act, 2025. The intention of the legislature also needs to be clearly laid out in the Income-tax Act, 1961 so that the intent is uniformly reflected in the two Acts.

Accordingly, it is proposed to clarify in the Income-tax Act, 1961 that notwithstanding anything contained in any judgment, order or decree of court, the Assessing Officer for the purposes of section 148 and section 148A shall mean and shall always be deemed to have meant Assessing Officer other than the National Faceless Assessment Centre or any of its assessment units. Suitable amendment is also carried out in the Income-tax Act, 2025 so that correct interpretation is taken and litigation is minimized and certainty is achieved.

33. Assessments not to be invalid on ground of any mistake, defect or omission on account of computer-generated DIN, if such assessment is referenced by computer generated DIN in any manner [Section 522(2) of Income Tax Act, 2025 w.e.f. 01.04.2026, Section 292BA of Income Tax Act, 1961 w.r.e.f. 01.10.2019]

Section 292B of the Income-tax Act, 1961 states that no return of income, assessment, notice, summons or other proceeding in pursuance of any of the

provisions of this Act shall be invalid or shall be deemed to be invalid merely by reason of any mistake, defect or omission in such return of income, assessment, notice, summons or other proceeding if such return of income, assessment, notice, summons or other proceeding is in substance and effect in conformity with or according to the intent and purpose of this Act.

CBDT Circular 19 of 2019 dt. 14.8.2019 provided for quoting of a computer-generated document identification number (DIN), on inter-alia, assessment orders. There have been various judgments of High Courts where assessments have been held to be invalid on specious grounds like non-quoting of DIN on every page of the assessment order or non- quoting of DIN on the body of the order even where DIN was lawfully generated and quoted in communication accompanying the said orders. This has resulted in an interpretation where assessments have been annulled even though they were in conformity with the requirements of law and were duly protected by the provisions of section 292B as it saves all assessments which are in substance and effect in conformity with or according to the intent and purpose of the Act.

The Income-tax Act, 2025 is coming into force from the 1st of April, 2026. The objective of the new law has been to provide simplicity in language and provisions so as to avoid interpretational issues and prevent litigation. Therefore, there is an urgent need to clarify the position of law in the new Income-tax Act, 2025. The intention of the legislature also needs to be clearly laid out in the Income-tax Act, 1961 so that the intent is uniformly reflected in the two Acts.

Accordingly, it is proposed to clarify in section 292B that notwithstanding anything contained in any judgment, order or decree of court, no assessment in pursuance of any of the provisions of Income-tax Act, 1961 shall be invalid or shall be deemed to have been invalid on the ground of any mistake, defect or omission in respect of quoting of a computer generated Document Identification Number, if such assessment order are referenced by such number in any manner. Further, this amendment seeks to clarify as long as there is a reference of DIN in the assessment order, the same would be sufficient compliance even if there may be some minor mistakes, defects or omissions in notices or summons in relation to such assessment. Suitable amendments are also proposed to be carried out in the Income-tax Act, 2025 so that correct interpretation is taken, litigation is minimized and certainty is achieved.

34. Clarifying time-limit for completion of assessment under section 144C. [Section 286 of Income Tax Act, 2025 w.e.f. 01.04.2026, Section 153 of Income Tax Act, 1961 w.r.e.f. 01.04.2009, Section 153B of Income Tax Act, 1961 w.r.e.f. 01.10.2009]

Section 144C of the Income-tax Act provides for a special procedure where assessment is made in cases where the eligible assessee is a person in whose case variations arise on account of order of a transfer pricing officer or where the person is a non-resident. As per this section, the Assessing Officer is required to forward a draft of the proposed order of assessment (draft order) to the eligible assessee.

The eligible assessee has two choices. He can accept the variation proposed in the draft order or file objections before the Dispute Resolution Panel (DRP). Where variations in the draft order are accepted, the Assessing Officer is required to complete the assessment on basis of the draft order. The period for completing the assessment in this case is provided in section 144C(4) which is one month from the end of the month in which the acceptance from the eligible assessee is received or the period of 30 days of filing objections before DRP expire. Section 144C(4) clearly provides that the time limit of one month from the end of the month shall be available notwithstanding anything contained in section 153 or section 153B.

Where the eligible assessee files objection to the DRP, the DRP is required to pass directions as per section 144C(12) and time limit for passing these directions is nine months from the end of the month in which draft order is forwarded to the eligible assessee. The period for completing the assessment in this case is provided by section 144C(13) which is one month from the end of month in which such directions are received. Section 144C(13) clearly provides that the time limit of one month from the end of the month shall be available notwithstanding anything contained in section 153 or section 153B.

Section 153 provides for time limit for completion of assessment, reassessment and recomputation. Section 153B provide time limit for completion of assessment in search cases.

On plain reading of section 144C and 153 or 153B, as the case maybe, leaves no doubt that section 153 or section 153B provides for time limit for assessment but where assessment is made under section 144C(3) or 144C(13), the time available as per section 144C(4) or 144C(13) shall apply, notwithstanding the provisions of section 153 or section 153B.

In various judgements of courts, differing interpretations have been made regarding the intent of the legislature. A view has been taken that the entire process of section 144C has to satisfy the overall time limit of section 153 or

153B, even though, clear carve out has been provided by the section 144C itself. Even the apex court has rendered split verdict on this issue, thus, necessitating in bringing certainty and clarity to the legislative intent.

Further, the Income-tax Act, 2025 is coming into force from the 1st of April, 2026. The objective of the new law has been to provide simplicity in language and provisions so as to avoid interpretational issues and prevent litigation. Therefore, there is an urgent need to clarify the position of law in the new Income-tax Act, 2025. The intention of the legislature also needs to be clearly laid out in the Income-tax Act, 1961.

Accordingly, notwithstanding anything contained in any judgment, order or decree of court, it is proposed to clarify in section 153 and section 153B that time lines in these sections govern the draft order stage and the timelines provided in section 144C operate for finalization of assessments, notwithstanding the time limit provided in section 153 and section 153B.

Suitable amendments are also proposed to be carried out in the Income-tax Act, 2025 so that correct interpretation is taken, litigation is minimized and certainty is achieved.

Amendments relating to Special provisions for registered non-profit organisations (NPOs)

35. Amendment in the provision relating to merger of non-profit organisations (NPOs) [Section 354A] [w.e.f. Tax Year 2026-27]

Existing provisions of section 352(4) [Table: Sl. No. 8.B] inter alia provides that the specified person shall be liable to pay the tax on accreted income where it has merged with any other entity other than a registered non-profit organisation having the same or similar objects. However, the said provision does not capture the situation where a registered non- profit organisation has merged with any other registered non-profit organisation having same or similar objects as was provided under section 12AC of the Income-tax Act, 1961.

In order to provide for the provisions similar to section 12AC of the Income-tax Act, 1961 it is proposed to insert a new Section 354A in the Income-tax Act to provide that where any registered nonprofit organisation has merged with any other registered nonprofit organisation, the provisions of section 352 shall not apply if, —

(a) the other registered non-profit organisation has same or similar objects; and

(b) the said merger fulfils such conditions as may be prescribed.

Further, in order to align the existing provisions with the provisions of

Income-tax Act, 1961 it is proposed to amend said serial number 8 of Table below section 352(4) so as to provide that the specified person shall be liable to pay the tax on accreted income where it has merged with, any other —

(a) entity other than a registered non-profit organisation;

(b) registered non-profit organisation having objects same or similar to it but the said merger does not fulfil such conditions, as may be prescribed; or

(c) registered non-profit organisation that does not have same or similar objects

36. Amendment in the provisions relating to the violations by a registered NPO [Section 351] [w.e.f. Tax Year 2026-27]

Existing provisions of section 351 inter alia specifies activities which constitute 'specified violation' by a registered non-profit organisation, and it includes violation on account of commercial activities by registered non-profit organisation carrying out advancement of any other object of general public utility. Such violation is also included in the 'other violation' under section 353.

As inclusion of such violation under section 351 as 'specified violation' may lead to cancellation of registration, which was not the intent under the Income-tax Act, 1961, it is proposed to remove the reference of such violation from section 351 of the Income-tax Act so as to align it with the Income-tax Act, 1961.

37. Amendment of section 332(1)(f) of the Income-tax Act, 2025 to remove certain funds from the requirement of registration [Section 332(1)(f)] [w.e.f. Tax Year 2026-27]

Section 332 inter alia specifies the persons who may apply for registration as a registered non-profit organisation. The aforesaid provision also includes the persons referred to in Schedule VII (Table: Sl. No. 10) to (Table: Sl. No. 16), who were not required to register themselves under the Income-tax Act, 1961 to claim benefit of exemption under section 10 of the Income-tax Act, 1961.

In order to align the said provision with the Income-tax Act, 1961 and provide clarity it is proposed to remove the reference of aforesaid persons from section 332(1)(f) of the Income-tax Act, 2025, so that such person shall not be required to registered themselves under section 332 of the Act.

38. Amendment in section 349 of the Income-tax Act, 2025 to provide for filing of belated return by NPO [Section 349] [w.e.f. Tax Year 2026-27]

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

In order to enable furnishing of belated return by registered non-profit

organisation as was there in the Income-tax Act, 1961, it is proposed to amend the provisions of section 349 to provide reference of section 263(4) in the said section.

Amendments relating to TDS and TCS

39. Application of TDS on supply of manpower [Section 393(1)] [w.e.f. 01.04.2026]

Section 393(1) [Table: Sl. No. 6(i)] provides for the tax deduction at source (TDS) in the case of payments made to contractors for carrying out any work. It provides for rate of deduction of 1% when payment is made to individual or HUF and 2% in other cases.

Section 393(1) [Table: Sl. No. 6(iii)] provides for the tax deduction at source in the case of fees paid for professional or technical services. It provides for rate of deduction of 2% in case of fees for technical services or royalty for sale, distribution or exhibition of cinematographic films or to the business engaged in operation of call centre and 10% in other cases.

Section 393(1)[Table: Sl. No. 6(ii)] provides for the tax deduction at source by individual and HUF in the case of payments made to contractors for carrying out any work (not covered under section 393(1)[Table: Sl. No. 6(i)], by way of commission or brokerage or by way of professional services (not covered under section 393(1) [Table: Sl. No. 6(iii)]). It provides for rate of deduction of 2% for such payments.

There is ambiguity with regard to applicable rate of TDS for supply of manpower that whether provisions under section 393(1) [Table: Sl. No. 6(i)/(ii)] or [Table: Sl. No. 6(iii)] shall be applied.

In order to provide clarity with regard to the deduction of tax at source in case of supply of manpower, it is proposed to include it under the ambit of “work” in section 402(47) so that the provisions of Section 393(1) [Table: Sl. No. 6(i)] or 393(1) [Table: Sl. No. 6(i)], as the case may be, applies.

40. Correction of referencing error [Section 393(1)] [w.e.f. 01.04.2026]

Section 393(1) [Table: Sl. No. 3(i)], provides for TDS on sale of immovable property. Note 3 of the said section provides that in such cases TDS is to be done where sale consideration or stamp duty value is equal to or greater than ₹50 lakh. Note 3 has erroneously made a reference to [Table Sr. No. 3(iii)], (which is related to compulsory acquisition) instead of [Table Sr. No. 3(i)].

To correct the aforesaid referencing error, it is proposed to correct Note 3 of section 393(1) [Table: Sl. No. 3(i)] to convey correct intent of the Act.

It is proposed to amend Note 3 of section 393(1) [Table: Sl. No. 3(i)] of the Act.

41. No tax to be deducted at source in respect of interest on compensation amount awarded by Motor Accidents Claims Tribunal to an individual [Section 393(4)] [w.e.f. 01.04.2026]

As per the provisions of section 393(4) [Table: Sl. No. 7, Column C (c)(iv)] of the Act, tax is not required to be deducted in respect of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal, if the amount or the aggregate of the amounts of such income does not exceed ₹ 50,000 during the tax year.

In order to provide relief to the individual and to alleviate the hardship caused due to accident, it is proposed that no tax shall be deducted at source in respect of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal to an individual.

42. No tax to be deducted at source in respect of interest income credited or paid to any co- operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank) [Section 393(4)] [w.e.f. 01.04.2026]

Section 393(4) of the Act provides for the conditions where tax is not required to be deducted at source under corresponding provision of the Act.

In order to align the provisions of the Act with the Income-tax Act, 1961, section 393(4) [Table: Sl. No. 7, Column C (a)(i)] is proposed to be amended to provide that deduction of tax at source shall not be made 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).

43. Enabling filing of declaration for no deduction to a depository [Section 393(6)] [w.e.f. 01.04.2027]

Section 393(6) of the Act provides that tax is not to be deducted at source in certain cases. As per the provisions of the said section, a written declaration is to be filed by the assessee for no deduction of tax at source to the person responsible for paying any income or sum of the nature as specified in Column C of the Table in section 393(6). The said income include dividend, interest from securities and income from units of mutual fund.

Investors earning income from multiple units and securities face a cumbersome process, needing to submit separate forms to all entities thus leading to enhanced compliance. In order to reduce compliance burden of such

investors, it is proposed to allow filing of the declaration to the depository which in turn shall provide such declaration to the person responsible for paying such income.

Further, in order to ease the compliance for the person responsible for paying income or sum of the nature as specified in Column C of the Table in section 393(6), the time limit for furnishing the declaration received by them to the prescribed Income tax authority have been changed from monthly basis to quarterly basis.

However, only those investors who have held the securities or units in the depository and where the securities are listed in registered stock exchange in India are proposed to furnish the declaration to the depository.

44. Rationalisation of TCS rates [Section 394(1)] [w.e.f. 01.04.2026]

Section 394(1) of the Act provides multiple rates for collection of tax at source (TCS). It is proposed to rationalize the rates of TCS by providing uniform rates to the extent possible. It is also proposed to reduce some of the rates so as to provide relief to the collectees.

Rationalisation of TCS rates is proposed as follows:—

Sl. No	**Nature of receipt**	**Current Rate**	**Proposed Rate**
1.	Sale of alcoholic liquor	1%.	2%.
2.	Sale of tendu leaves.	5%.	2%.
3.	Sale of scrap.	1%.	2%.
4.	Sale of minerals, being coal or lignite or iron ore.	1%.	2%.
5.	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding ₹10 lakh—	(a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.	(a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.
6.	Sale of "overseas tour programme package" including expenses for travel or hotel	(a) 5% of amount or aggregate of	2%

	stay or boarding or lodging or any such similar or related expenditure.	amounts up to ₹10 lakh; (b) 20% of amount or aggregate of amounts exceeding ₹10 lakh.	

45. Enabling electronic verification and issuance of certificate for deduction of income-tax at lower rate or no deduction of income-tax [Section 395] [w.e.f. 01.04.2026]

Section 395 of the Act pertains to issuance of certificates for deduction of tax at source (TDS) and tax collection at source (TCS) at nil or lower rate.

Sub-section (1) of the said section of the Act provides for issuance of certificate for deduction of tax at source at Nil or lower rates. As per the present provisions, the payee has to make an application before the Assessing Officer. Subsequent to the application, if the Assessing Officer is satisfied after due verification that the total income of the recipient

justifies deduction of income-tax at any lower rates or no deduction of income-tax, he shall issue a certificate for lower or nil deduction of tax at source.

It is proposed to ease the compliance burden of small taxpayers by providing an option to the payee, to file the application for issuance of certificate for lower or nil deduction of income-tax electronically before the prescribed income-tax authority, which may issue the certificate subject to fulfilment of conditions as may be prescribed, or reject the application if prescribed conditions are not fulfilled or the application is incomplete.

46. Relaxation from requirement to obtain tax deduction and collection account number (TAN) by a resident individual or HUF, where the seller of the immovable property is a non-resident [Section 397(1)(c)] [w.e.f. 01.10.2026]

Section 397(1)(a) of the Act provides that every person, deducting or collecting tax shall apply to the Assessing Officer for the allotment of a "tax deduction and collection account number" (TAN). Clause (c) of the said sub-section provides for cases where a person is not required to obtain TAN.

Presently, if a person buys an immovable property from a resident seller, the person is not required to obtain (TAN) to deduct tax at source. However, where seller of the immovable property is a non-resident, the buyer is required to obtain

TAN to deduct tax at source. This creates unnecessary compliance burden for the buyer, as he would need TAN for a single transaction.

In order to reduce compliance burden for the resident individual and Hindu undivided family, it is proposed to amend section 397(1)(c) of the Act to provide that resident individual or Hindu undivided family, is not required to obtain TAN to deduct tax at source in respect of any consideration on transfer of any immovable property under section 393(2) [Table Sl. No. 17].

47. Guidelines to be binding on income-tax authorities and person liable to deduct or collect income-tax [Section 400(2)] [w.e.f. 01.04.2026]

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

Corresponding provisions in the Income-tax Act, 1961 also provided that such guidelines shall be binding on income-tax authorities and on the person liable to deduct or collect income-tax. However, section 400(2) of the Act does not contain aforesaid clause which binds the guidelines.

In order to align with the intent of the provisions of the Income-tax Act, 1961, it is proposed that any guidelines issued to remove difficulties in giving effect to provisions of TDS/TCS chapter shall be binding on income-tax authorities and on the person liable to deduct or collect income-tax.

48. Providing definition of "authorised person" [Section 402(27)] [w.e.f. 01.04.2026]

Section 402(27) of the Act provides for definition of "person responsible for paying". In case of payment to non-resident, for transfer of foreign exchange asset, "authorised person" is the person responsible for paying. The term "authorised person" has been defined in the Income-tax Act, 1961, however, it is not defined in the Income-tax Act, 2025.

To align with the provisions of Income-tax Act, 1961, it is proposed to provide definition of "authorized person" as has been provided in the said Act.

Amendments relating to Penalties and Prosecution

49. Expanding the scope of immunity from penalty or prosecution under section 440 of the Act [Section 440] [w.e.f. Tax Year 2026-27]

Section 440 of the Act, provides, inter-alia, procedure of granting immunity by the Assessing Officer from imposition of penalty or prosecution, if assessee fulfils the following conditions, namely: –

(a) the tax and interest payable as per Assessment order, has been paid within the period specified in notice of demand;

(b) no appeal against the such assessment order has been filed.

Further, sub-section (2) provides that assessee shall file an application within one month from the end of the month in which said assessment order has been received by him. Furthermore, sub-section (3) provides that assessing officer shall, subject to the fulfilment of the aforementioned conditions, and after the expiry of the period of filing the appeal, grant the immunity from imposition of penalty under section 439 and initiation of prosecution proceedings under section 478 or section 479. Further, sub-section (4) provides that Assessing Officer shall pass an order accepting or rejecting the application, within a period of three months from the end of the month in which the application for requesting immunity is received.

Presently, immunity under section 440 can only be granted in the cases of under- reporting of income and not in the case of under-reporting of income in consequence of misreporting.

In this regard, it has been considered that provision of immunity should also be extended to such cases where under-reporting of income is in consequence of misreporting. However, the taxpayer is required to pay an additional income-tax to the extent of 100% of the amount of tax payable on such income in lieu of the penalty.

Additionally, as the separate penalty (existing penalty under section 443 of the Act) for income determined by AO, which is in the nature of income referred to in section 102 to 106 (unexplained credits, unexplained investment, unexplained asset etc.) of the IT Act, 2025 is proposed to be omitted and subsumed in cases of misreporting of income under section 439(11), therefore immunity provision for the same is also proposed in section 440, to provide opportunity to the taxpayers to settle the disputes at an early stage on payment of additional-tax and reduce the burden of litigation and compliance. However, the taxpayer is required to pay an additional income-tax to the extent of 120% of the amount of tax payable on such income in lieu of penalty.

In view of the same, it is proposed to amend the section 440 of the Act so as to extend the scope of immunity to such cases where penalty is initiated for under-reporting of income in consequence of misreporting.

50. Expanding the scope of immunity from imposition of penalty or prosecution under section 270AA [Section 270AA of Income-tax Act, 1961] [w.e.f. A.Y. 2026-27]

Section 270AA of the Act, provides, inter-alia, procedure of granting immunity by the Assessing Officer from imposition of penalty or prosecution, if assessee fulfils the following conditions, namely: –

(a) the tax and interest payable as per Assessment order, has been paid within the period specified in notice of demand;

(b) no appeal against the such assessment order has been filed.

Further, sub-section (2) provides that assessee shall file an application within one month from the end of the month in which said assessment order has been received by him. Furthermore, sub-section (3) provides that assessing officer shall, subject to the fulfilment of the aforementioned conditions, and after the expiry of the period of filing the appeal, grant the immunity from imposition of penalty under section 270A and initiation of prosecution proceedings under section 276C or section 276CC. Further, sub-section (4) provides that Assessing Officer shall pass an order accepting or rejecting the application, within a period of three months from the end of the month in which the application for requesting immunity is received.

Presently, immunity under section 270AA can only be granted in the cases of under- reporting of income and not in the case of under-reporting of income in consequence of misreporting. However, the taxpayer is required to pay an additional income-tax to the extent of 100% of the amount of tax payable on such income in lieu of the penalty.

In this regard, it is considered that provision of immunity should also be extended to such cases where under-reporting of income is in consequence of misreporting.

In view of the same, it is proposed to amend the section 270AA of the Act so as to extend the scope of immunity to such cases where penalty is initiated for under-reporting of income in consequence of misreporting.

51. Rationalisation of Penalties into Fee [Sections 446, 447, 454] [w.e.f. Tax Year 2026-27]

Section 446 of the Act, provides penalty for failure to get accounts audited. It further provides that, if any person fails, without reasonable cause, to get his accounts audited in respect of any previous year or years relevant to an assessment year or to obtain a report of such audit as required under the aforesaid provision, the Assessing officer may direct that such person shall pay, by way of penalty, lesser of –

(i) 0.5% of the total sales, turnover or gross receipts, in the business, or the gross receipts in the profession, for such tax year or years, or

(ii) ₹ 150000.

Further, section 447 provides penalty for failure to furnish report under section 172 of the Act, where section 172 relates to report from an accountant to be furnished by persons entering into international transaction or specified domestic transactions. Presently, a penalty of ₹ 1,00,000/- is levied for such failure.

Further, section 454 provides for penalty for failure to furnish statement of financial transactions or reportable account. Presently, a penalty of ₹ 500 is levied for everyday during which such failure continues. Further, 454(2) provides that if person referred to in sub-section (1), fails to furnish the statement within the period specified in the notice issued under section 508(7), then in that case a penalty of ₹ 1000 is levied for everyday during which the failure continues.

In this regard, it is considered that penalties for technical delays should be converted into mandatory fee as fee reduces litigation for technical faults.

In view of the above it is proposed to convert following penalties into fee:

I. **Penalty under section 446** for failure to get accounts audited is converted to a fee under proposed section of 428(c). Accordingly, Graded fee of Rs. 75,000 and 1,50,000 is proposed depending upon the period of delay. It is pertinent to mention that this penalty under section 446 has been omitted but the same section has been replaced by the penalty for failure to furnish information or for furnishing inaccurate information on transactions of crypto asset.

II. **Penalty under section 447** for failure to furnish report under section 172 is converted to a fee under section 428(4). Graded fee of Rs. 50,000 and 1,00,000 is provided depending upon the period of delay.

III. **Penalty under section 454(1)** for failure to furnish statement of financial transaction or reportable account is converted to a fee under section 427(3).

Further, an upper limit of Rs. 1,00,000/- is also proposed to be made in existing penalty under section 454(2) of the Act.

52. Increase in maximum amount of penalty in section 466 of the Act [Section 466] [w.e.f. Tax Year 2026-27]

Section 254 of the Income-tax Act, 2025 provides the power to the income-tax authorities to collect information from the premises where business or profession is carried out, by directing the proprietor or employee or any other person, who may at that time and place, be attending in any manner to, or helping in, or carrying on of such business or profession, to furnish certain information as authorized.

Further, section 466 of the Act provides for a penalty if any person fails to comply with the provision of section 254, i.e. power to collect information, and does not furnish the requisite information to the authorized income-tax authorities. The section further gives power to Joint Commissioner, Deputy Director or Assistant Director or the Assessing officer to impose maximum penalty amounting to ₹1000/-.

In this regard, it has been considered that the maximum amount of penalty should be proportionate to create adequate deterrence and voluntary compliances.

In view of the same, it is proposed to amend the section 466 of the Act so as to enhance the maximum amount of penalty to Rs. 25,000 from existing Rs. 1,000.

53. Imposition of penalty for under-reporting or misreporting of income within Assessment Order [Section 471 of Income tax Act, 2025, Section 274 of Income Tax Act, 1961]

Under the existing provisions of the Income-tax Act, first an assessment order is passed and based on the findings or additions made in it and subject to the status of appellate proceedings, penalty is initiated in the assessment order by the Assessing Officer. Subsequently, separate penalty proceedings are initiated by giving a show cause notice and a separate penalty order is passed after giving due opportunity to the assessee.

2. Section 274 of the Income-tax Act, 1961 prescribes the procedure for imposing penalties and mandates that no penalty shall be levied unless the assessee is given a reasonable opportunity of being heard. It requires the Assessing Officer to issue a show-cause notice for which the penalty is proposed, and in certain cases, prior approval of higher authorities is necessary before imposing the penalty. The section ensures adherence to the principles of natural justice and aims to prevent arbitrary or invalid penalty proceedings.

3. Section 220 of the 1961 Act, deals with the payment and recovery of tax demand, stating that any amount specified in a notice of demand under

Section 156 must be paid within 30 days of service of the notice. If the assessee fails to pay within this period, they are deemed to be in default and become liable to interest under Section 220(2), along with possible recovery proceedings such as attachment of property. The Assessing Officer may, however, allow payment by instalments or extend the time for payment, subject to conditions, to provide relief in genuine cases.

4. Section 245MA of the 1961 Act, provides for the Dispute Resolution Committee (DRC). It prescribes for the constitution of a DRC to resolve disputes of specified small and medium taxpayers in a cost-effective and expeditious manner. The Committee is empowered to reduce or waive penalties and grant immunity from prosecution, subject to conditions, with the objective of reducing litigation. The section lays down eligibility, procedure, and binding nature of the DRC's order, promoting voluntary compliance and speedy dispute resolution.

5. In this regard, it is considered that the above scheme leads to multiplicity of proceedings, as eventually penalty has to be imposed based on the findings of the assessment order and additions made in it and subject to the status of appellate proceedings. Further, taxpayer remains in uncertainty regarding the status of imposition of penalty as the appellate proceedings may stretch to multiple years. In this context, a common order for both assessment and penalty for under-reporting and misreporting of income will ensure avoiding multiplicity of proceedings which in turn would reduce the compliance of the tax payers apart from providing consistency in levying of penalty.

6. Accordingly, it is proposed to amend section 274, to provide that, penalty for under- reporting of income under levied under section 270A to be imposed within the assessment Order. Further, section 220 is also proposed to be amended for charging of interest under section 220(2) only after passing of the order by CIT(A) or ITAT (for appeal against DRP orders), as case maybe. Consequential amendment is also proposed in section 245MA.

The proposed amendments shall come into force in the Income-tax Act, 2025 from 1st day of April, 2026 and shall be effective from 1st day of April, 2027, where any draft of the proposed order of assessment under section 275 is made or assessment under section 270 or reassessment under section 279 is made on or after 1st of April, 2027.

7. Further, similar amendments are also proposed in Income-tax Act, 1961 in section 274, 220, 234MA. It is further proposed that these proposed amendments shall come into force in the Income-tax Act, 1961 from the 1st day of March, 2026 and shall be effective from 1st day of April, 2027, where any draft of the proposed order of assessment under section 144C is made or assessment under section 143 or reassessment under section 147 is made on or after 1.4.2027.

54. Rationalisation of tax rate under section 195 and penalty under section 443 in respect of certain Income [Sections 195, 443, 439(11)] [w.e.f. Tax Year 2026-27]

Section 195 of the Income-tax Act, 2025 provides for tax on income referred to in section 102 to 106. Section 102 to 106 provides for income on account of, unexplained credits, unexplained investment, unexplained asset, unexplained expenditure and amount borrowed or repaid through negotiable instrument, hundi, etc.

Section 195(1) further provides that where total income of an assessee includes any income referred to in section 102 or 103 or 104 or 105 or 106, the income-tax calculated on such income will be charged at the rate of 60%.

Further, section 443 provides that, penalty amounting to 10% of the tax payable under section 195(1)(i), on an assessee if the income determined in his case for any tax year includes any income referred to in section 102,103,104,105 or 106.

With regard to the section 195 of the Act on the tax on income referred to in section 102 to 106, it is considered that the tax rate of 60% which is currently charged on income referred to in section 102 to 106 as per section 195, is not proportionate and need rationalisation. Therefore, to rationalise the same, the tax rate of 30% is proposed under section 195 of the Act.

Further, it is also proposed to bring the penalty rate on income determined by Assessing Officer which is in nature of income referred to in section 102 to 106 at par with the rate charged for misreporting of income under section 439. Accordingly, penalty provision under section 443 (penalty for income referred to in section 102 to 106) is proposed to be omitted and, in respect of such income, penalty is proposed to be included in the cases of under-reporting of income in consequence of misreporting under section 439(11) of the Act.

Therefore, it is proposed to amend section 195 to reduce the tax rate from 60% to 30%. Further, it is also proposed to omit penalty under section 443 and subsume this penalty under section 439(11) of the Act.

55. Penalty provision for non-furnishing of statement or furnishing inaccurate information in a statement on transaction of crypto-assets [Section 446] [w.e.f. 01.04.2026]

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

To ensure compliance to the provisions of section 509 of the Act and create

a deterrence for non-furnishing of such statement or for sharing inaccurate information in such statement, it is proposed to introduce penalty provision. Penalty of Rs. 200 per day for non- furnishing of statement and Rs. 50,000 for furnishing inaccurate particulars and failure to correct such inaccuracy is proposed to be levied.

Accordingly, it is proposed to amend section 446 of the Act to provide penalty provisions for non-furnishing of statement and for furnishing inaccurate information in the statement.

56. Rationalization of prosecution proceedings [Section 473 to 485 and Section 494 of Income Tax Act, 2025 w.e.f. 01.04.2026, Section 275A to 278A and Section 280 of Income Tax Act, 1961 w.e.f. 01.03.2026]

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

Section 473 to 485 prescribe various offences on the part of assessee and form and manner of punishment and the conditions therein including time limitation, exceptions, threshold for amount of tax evaded and its punishment, punishment for subsequent offences, etc.

Section 473 deals with the contravention of order made under section 247(Search & Seizure) by the assessee in an attempt to derail the search proceedings and tamper with the evidence. At the same time, section 474 deals with the offence of not providing the necessary facility to inspect the books of account of other documents during search proceedings. Section 475 penalises the assessee in case of offence of removal, concealment, transfer or delivery of property to prevent tax recovery.

Section 476 criminalises the offence of not crediting the TDS deducted in the account of Central Government. This section covers four offences which are TDS deducted for winnings from lottery, crossword puzzle; winning from online games; benefit or perquisite arising from business or profession; sum for transfer of a virtual digital asset. In the similar manner, section 477 deals with tax collected at source but not credited to the account of Central Government.

Section 478 deals with the offence of wilful attempt to evade any tax, penalty or under reporting of income and payment of any tax, penalty or interest. Section 479 criminalises the offence to failure to furnish return either by issuance of

notice under this Act or otherwise. In the similar manner, section 480 penalises the offence of failure to furnish return in search cases.

In case, assessee failed to produce the books of accounts or other documents or failed to follow direction of Assessing Officer, section 481 criminalises this offence. In case, a person makes false statement or delivers an account which is false, section 482 prescribes punishment for this offence. Section 483 penalises the offence of falsification of books of accounts or documents or made entry or statement which is false in books of account. Section 484 deals with offence of abatement of false return wherein person makes or delivers an account or statement relating to any income which is false. Further, section 485 deals with second and subsequent offences. Section 494 deals with disclosure of particulars by public servants.

In this regard, it is proposed to amend Section 473 to 485 & 494 of the Act in light of continued exercise of decriminalisation and to make the punishment for the offences mentioned in these sections proportionate to the crimes. The principles that are followed in the proposed decriminalization exercise are as follows:

(a) The nature of punishment is changed from rigorous imprisonment to simple imprisonment wherever prescribed in the sections mentioned above.

(b) Maximum punishment is proposed to be limited to 2 years from its current 7 year and for the subsequent offences, it is reduced to 3 years from its current 7 years.

(c) Wherever punishment of offences is prescribed based on certain grading of amount of tax evaded, new grading of offences and its corresponding punishment is prescribed.

(d) For amount of tax evaded does not exceeds ₹10 lakh, punishment of only fine is prescribed.

(e) Imposition of fine is introduced in lieu of or in addition of imprisonment.

(f) Certain offences are fully decriminalized.

Following changes in the nature and period of punishment in section 473 to 485 & 494 are proposed based on the principles of decriminalisation followed as discussed in para 7:

(a) In section 473, punishment for the offences mentioned under section 473 is proposed to be changed from its current “rigorous imprisonment for a term which may extend to two years and shall also be liable to fine” to “simple imprisonment upto two years and fine”.

(b) In section 474, punishment for the offences mentioned under section 474 is proposed to be changed from its current "rigorous imprisonment for a term which may extend to two years and shall also be liable to fine" to "simple imprisonment upto 6 months and/or fine".

(c) In section 475, punishment for the offences mentioned under section 475 is proposed to be changed from its current "rigorous imprisonment for a term which may extend to two years and shall also be liable to fine" to "simple imprisonment upto two years and fine".

(d) In case of offences related to tax deducted at source (TDS):

(i) If a person fails to pay the tax deducted at source or ensures the payment of such tax, in case of winnings from Lottery or crossword puzzle etc. as required under section 476(1)(b)(i) and if a person fails to pay and ensure payment of tax deducted at source in case of benefits or perquisite under section 476(1)(b)(ii) then the punishment for these offences is rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine. These offences are proposed to be fully decriminalized.

(ii) Further, in similar manner, if a person fails to pay tax deducted at source or ensure payment of tax in case of winnings from online games under section 476(1)(b)(i) and consideration from virtual digital asset under section 476(1)(b)(ii) then these offences attract punishment of rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine. In these cases, winnings from online games and consideration from virtual digital asset which are wholly in kind are also proposed to be excluded from criminal liability related to prosecution in case of failure to pay tax or ensure payment of tax. In any other case, punishment in these cases under section 476 is proposed to be changed in the manner given below:

(a) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where amount of such tax exceeds ₹50 lakh;

(b) with simple imprisonment for a term upto six months, or with fine, or with both, in a case where

amount of such tax exceeds ₹10 lakh but does not exceed ₹50 lakh;

(c) with fine, in any other case.

(e) In section 477, punishment for the offences mentioned under section 477 is rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine. This punishment is proposed to be changed in the manner given below:

(i) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where amount of such tax exceeds ₹50 lakh;

(ii) with simple imprisonment for a term upto six months or with fine, or with both, in a case where amount of such tax exceeds ₹10 lakh but does not exceed ₹50 lakh;

(iii) with fine, in any other case.

(f) In case of wilful attempt to evade tax,

(i) In section 478(1), punishment for the offences as mentioned under section 478(1) is proposed to be changed in the manner given below:

(a) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where the amount sought to be evaded or tax on under-reported income exceeds ₹50 lakh;

(b) with simple imprisonment for a term upto six months, or with fine, or with both, in a case where the amount sought to be evaded or tax on under-reported income exceeds ₹10 lakh but does not exceed ₹50 lakh;

(c) with fine, in any other case.

(ii) In section 478(2), punishment of offences under section 478(2) is

proposed to be changed in the manner given below:

(a) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where the amount sought to be evaded exceeds ₹50 lakh;

(b) with simple imprisonment for a term upto six months, or with fine, or with both, in a case where the amount sought to be evaded exceeds ₹10 lakh but does not exceed ₹50 lakh;

(c) with fine, in any other case.

(g) In section 479, punishment for the offences mentioned under section 479(1) is proposed to be changed in the manner given below:

(a) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where the amount of tax, which would have been evaded if the failure had not been discovered, exceeds ₹50 lakh;

(b) with simple imprisonment for a term upto six months, or with fine, or with both, in a case where the amount of tax, which would have been evaded if the failure had not been discovered, exceeds ₹10 lakh but does not exceed ₹50 lakh;

(c) with fine, in any other case.

(h) In section 480, punishment for the offences mentioned under section 480 is proposed to be changed in the manner given below:

(a) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where the amount of tax exceeds ₹50 lakh;

(b) with simple imprisonment upto six months, or with fine, or with both, in a case where the amount of tax, exceeds ₹10 lakh but does not exceed ₹50 lakh;

(c) with fine, in any other case.

(i) In section 481, punishment for the offences mentioned under section 481 is proposed to be changed in the manner given below:

(a) in the case where a person wilfully fails to produce, or cause to be produced, the accounts and documents as are referred to in the notice served on him under section 268(1) on or before the date specified in such notice, this provision under section 481 is proposed to be fully decriminalised.

(b) in the case where a person wilfully fails to comply with a direction issued to him under section 268(5), the punishment is proposed to be changed from its current "rigorous imprisonment for a term which may extend to one year and with fine" to simple imprisonment for a term upto six months, or with fine, or with both.

(j) In section 482, punishment for the offences mentioned under section 482 is proposed to be changed in the manner given below:

(a) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where the amount of tax, which would have been evaded if the statement or account had been accepted as true, exceeds ₹50 lakh;

(b) with simple imprisonment for a term upto six months, or with fine, or with both, in a case where the amount of tax, which would have been evaded if the statement or account had been accepted as true, exceeds ₹10 lakh but does not exceed ₹50 lakh;

(c) with fine, in any other case.

(k) In section 483, punishment for the offences mentioned under section 483(1) is proposed to be changed from its current "rigorous imprisonment for a term which shall not be less than three months but which may extend to two years and with fine" to "simple imprisonment for a term upto two years and shall also be liable to fine".

(l) In section 484, punishment for the offences mentioned under section 484 is proposed to be changed in the manner given below:

(i) with simple imprisonment for a term upto two years, or with fine, or with both, in a case where the amount of tax, penalty or interest which would have been evaded, if the declaration, account or statement had been accepted as true, or which is wilfully attempted to be evaded, exceeds ₹50 lakh;

(ii) with simple imprisonment for a term upto six months, or with fine, or with both, in a case where the amount of tax, penalty or interest which would have been evaded, if the declaration, account or statement had been accepted as true, or which is wilfully attempted to be evaded, exceeds ₹10 lakh but does not exceed ₹50 lakh;

(iii) with fine, in any other case.

(m) In section 485, punishment for the offences mentioned under section 485 is proposed to be changed from its current "rigorous imprisonment for a term which shall not be less than six months but which may extend to seven years, and with fine" to "simple imprisonment for a term which shall not be less than six months but which may extend to three years and shall also be liable to fine".

(n) In section 494, punishment for the offences mentioned under section 494(1) is proposed to be changed from its current "imprisonment which may extend to six months, and shall also be liable to fine" to "simple imprisonment upto one month, or with fine, or with both".

Heading of sections in following sections of the Act is proposed to be aligned with the Act and further simplify the Act:

(a) In section 473, heading of the section is changed to "Contravention of order made during search action".

(b) In section 474, heading of the section is changed to "Failure to afford facility for inspection of books of account during search".

(c) In section 478, heading of the section is changed to "Failure to comply with a direction of special audit or valuation".

Similar principles as referred in para 7 has been followed to make amendments of similar nature as referred in para 8 & 9 in relevant prosecution provisions i.e. section 275A to 278A & 280 of Income-tax Act, 1961.

Miscellaneous Amendments

57. Correction in provisions relating to Permanent Account Number [Section 262(10(c)] [w.e.f 01.04.2026]

Section 262(10)(c) provides that Central Board of Direct Taxes (CBDT) may make rules for categories of documents pertaining to business or profession in which Permanent Account Number shall be quoted by every person. However, the said section 262(10)(c) does not specify the power of the CBDT to make rules for quoting of Permanent Account Number (PAN) in such documents which does not relate to business or profession.

It is pertinent to mention that section 262(10)(c) of the Act corresponds to section 139A(5)(c) of the Income-tax Act, 1961 which provides that every person shall quote such number in all documents pertaining to such transactions as may be prescribed by the Board in the interest of revenue.

In this regard, it is proposed to amend section 262(10)(c) to enable Central Board of Direct Taxes (CBDT) to make rules for quoting of Permanent Account Number in documents related to such transactions which do not relate to business or profession

58. Clarifying repeal and savings clause where amount allowed as deduction earlier is to be treated as income in a later year [Section 536(2)(h)] [w.e.f. Tax Year 2026-27]

Section 536(2)(h) of the Act provides that where any deduction has been allowed or any amount has not been included in the total income under the repealed Income-tax Act, 1961, subject to fulfilment of certain conditions, then on violations of such conditions, such amount will be deemed to be income in the tax year in which violation takes place.

However, there are provisions in the repealed Act, where any deduction allowed or any income which has not been included in the total income under the repealed Income-tax Act, 1961 may have to be included as income as per the provisions of the Income-tax Act, 1961 under the provisions of Income-tax Act, 2025, even without violations of any conditions. Section 536(2)(h) presently does not cover these cases.

Thus, to include such situations, it is proposed that where any sum has been allowed as deduction or has not been included in the total income under the repealed Income-tax Act, 1961, such sum will be deemed to be income under Income-tax Act, 2025, even without violations of any conditions, if it was to be included in the total income under the provisions of Income-tax Act, 1961 had it not been repealed.

59. Amendment in the definition of the specified fund [Schedule VI] [w.e.f. Tax Year 2026-27]

Existing provisions of Sl. No.1 to 4 of the Schedule VI applies to any specified fund and “specified fund” has been defined in Note 1(g) to said Schedule.

In order to provide clarity, it is proposed to amend the Note1(g) to said Schedule so as to align the definition of “specified fund” with the definition provided under section 10(4D) of the Income-tax Act, 1961.

60. Increase in tax rates of Securities Transaction Tax [w.e.f. 01.04.2026]

Securities Transaction Tax (STT) was introduced by the Finance (No. 2) Act, 2004 as a mechanism for efficient collection of tax on transactions in specified securities carried out through recognised market infrastructure. Under the STT framework, the obligation to collect and deposit the tax is placed on recognised stock exchanges, mutual funds in respect of equity-oriented schemes, insurance companies, or lead merchant bankers, as applicable. Over time, STT has become an integral component of the securities market ecosystem and supports the policy objective of promoting transparent, exchange-traded transactions.

The rates of STT have been revised periodically to reflect changes in market

structure and trading behaviour. In view of the scale and depth achieved by the derivatives market, it is considered appropriate to undertake a calibrated revision of the applicable rates of STT on options and futures transactions.

It is proposed to increase the rate of STT on sale of an option in securities from 0.1% to 0.15% of the option premium, on sale of an option where the option is exercised from 0.125% to 0.15% of the intrinsic price, and on sale of a future in securities from 0.02% to 0.05% of the traded price. This will address issue of disproportionate increase in speculation in futures and options trading.

Amendments related to Provident Funds

61. Rationalisation of Schedule XI relating to Provident Funds [w.e.f. Tax Year 2026-27]

The provisions relating to recognised provident funds contained in Schedule XI to the Act carry forward certain legacy concepts that need alignment with the framework under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 and the Employees' Provident Fund Scheme, 1952. In view of the evolution of the provident fund regulatory regime and the introduction of an absolute monetary cap on employer contributions under section 17(1)(h) of the Act, it is proposed to rationalise and align the income-tax provisions governing recognised provident funds with the prevailing EPF framework.

The provisions of paragraph 4(c) of Part A of Schedule XI of the Act restrict employer contributions by reference to parity with employee contributions and mandates annual crediting of such contributions. As a unified monetary ceiling of ₹7.5 lakh on aggregate employer contributions has been prescribed under section 17(1)(h), it is proposed to omit Paragraph 4(c).

The provisions of paragraph 4(f) of Part A of Schedule XI govern eligibility for recognition of provident funds with reference to exemption from the EPF Scheme. It is proposed to amend Paragraph 4(f) to clarify that only provident funds which have obtained exemption under section 17 of the EPF Act may apply for recognition under the Income-tax Act.

The provisions of paragraph 5(4) of Part A of Schedule XI permit discretionary relaxation of employer–employee contribution parity based on a salary threshold of ₹500 or contingent bonus structures. As a unified monetary ceiling of ₹7.5 lakh on aggregate employer contributions has been prescribed under section 17(1)(h), it is proposed to omit Paragraph 4(c).

The provisions of paragraph 6(a) of Part A of Schedule XI deem employer contributions in excess of 12% of salary as income of the employee. This percentage-based restriction overlaps with the unified monetary ceiling

prescribed under section 17(1)(h), resulting in a parallel limitation. Therefore, it is proposed to omit Paragraph 6(a).

The provisions of paragraph 1(d) of Part C of Schedule XI prescribe differentiated limits for employees who are also shareholders of the employer company. Such a distinction is not recognised under the EPF Act or the EPF Scheme and overlaps with the unified monetary ceiling prescribed under section 17(1)(h). It is accordingly proposed to omit Paragraph 1(d) of Part C.

The provisions of paragraph 1(e) of Part C of Schedule XI restrict investment of provident fund monies in Government securities to 50%. This ceiling is inconsistent with the current investment norms prescribed by the Ministry of Labour and Employment and the Employees' Provident Fund Organisation, which permit higher exposure. It is proposed to amend Paragraph 1(e) to remove the rigid statutory cap, while retaining regulatory oversight through subordinate legislation under the EPF framework.

Amendments relating to Black Money Act

62. Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026 (FAST-DS 2026) [w.e.f. from the date to be notified by the central government]

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 was enacted to address the issue of undisclosed foreign income and assets held by resident taxpayers. At the time of its introduction, a one-time compliance window was provided from 1 July 2015 to 30 September 2015 to enable voluntary declaration of undisclosed foreign assets acquired up to 31 March 2015, subject to payment of tax and penalty.

It has been observed that non-compliance is particularly prevalent in cases involving legacy or inadvertent non-disclosures for small taxpayers, including 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, and assets held by individuals on overseas deputation. Further, information received under the Automatic Exchange of Information framework indicates non-disclosure of foreign financial assets by a significant number of PAN holders.

In order to facilitate voluntary compliance and enable resolution of such legacy cases of small taxpayers, it is proposed to introduce a time-bound scheme for declaration of foreign assets and foreign-sourced income, with payment of tax or fee based on the nature and source of acquisition and grant of limited immunity from penalty and prosecution under the Black Money Act in respect of matters covered by the declaration. Cases involving prosecution or proceeds of crime are proposed to be excluded

63. Relaxation of conditions for prosecution under the Black Money Act [w.e.f. 01.10.2024]

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 [the Black Money Act] provides for penal and prosecution measures in cases of wilful non-disclosure of foreign income and assets by residents. Sections 49 and 50 of the Black Money Act, prescribe prosecution, including rigorous imprisonment and fine, where a resident wilfully fails to furnish a return of income or wilfully omits to disclose foreign assets or income in the return of income.

In order to provide relief in cases of minor and inadvertent non-disclosures and to align the prosecution provisions with the penalty framework under the Black Money Act, it is proposed to amend sections 49 and 50 to provide that these provisions shall not apply in respect of foreign assets, other than immovable property, where the aggregate value does not exceed ₹20 lakh.

Indirect Taxes

LEGISLATIVE CHANGES – CUSTOMS, CENTRAL EXCISE

A. CUSTOMS

Proposed Amendment by Union Budget 2026 in Customs Act, 1962 and rules thereof:

Changes will come into effect from the date of assent of the Finance Bill, 2026

(1) Customs Jurisdiction Extended Beyond Territorial Waters for Fishing

The scope of the Customs Act is extended beyond India's territorial waters specifically for fishing and fishing related activities, ensuring legal authority for customs control, compliance and facilitation in marine operations carried out outside territorial limits.

(2) Clear Definition of "Indian-Flagged Fishing Vessel"

A new definition is inserted to legally recognise Indian-flagged fishing vessels, which helps in uniform interpretation and implementation of the special customs framework for fishing activities.

(3) Penalty Paid under Section 28 Treated as a Charge for Non-Payment of Duty

Penalty paid under section 28(5) on determination under section 28(6) will be deemed to be a charge for non-payment of duty, strengthening the legal treatment of such payments and improving enforceability and closure of duty-related cases.

(4) Advance Ruling Validity Fixed at Five Years and Extension for Existing Rulings

Advance rulings under section 28J will remain valid for five years or till change in law or facts, whichever is earlier, and existing rulings in force on the date of Presidential assent can be extended to five years from the date of ruling on request by the applicant, giving importers longer certainty and reducing repeated litigation.

(5) Special Provisions for Duty-Free Fish Harvested Beyond Territorial Waters (New Section 56A)

A new section 56A creates a special legal framework for fishing activities by Indian-flagged fishing vessels beyond territorial waters, allowing fish harvested beyond territorial waters to be brought into India duty-free, treating fish landed at foreign ports as exports as per rules, and enabling detailed regulations for declaration, custody, examination, assessment, clearance, transit and

transhipment, thereby improving marine trade competitiveness and procedural clarity.

(6) Simplified Transfer of Warehoused Goods between Bonded Warehouses (Section 67 Substituted)

Section 67 is substituted to allow removal of warehoused goods from one warehouse to another subject to prescribed conditions, removing the earlier requirement of prior permission from the proper officer, which will reduce procedural delays and improve movement efficiency in bonded logistics.

(7) Custody of Imported/Export Goods Covered under Regulations (Section 84 Amendment)

Section 84 is amended to include "custody" along with examination, enabling the Board to frame regulations not only for examination but also for custody of goods imported or to be exported, strengthening procedural management and compliance safeguards.

(8) Passenger and Baggage Facilitation through New Rules and Consolidated Regulations

Baggage Rules, 2016 are replaced by Baggage Rules, 2026 to rationalise baggage provisions, resolve interpretational issues, provide clarity for temporary carriage of goods to avoid unnecessary detention, and restructure Transfer of Residence benefits based on duration of stay, effective from midnight of 02.02.2026, and multiple baggage regulations are consolidated into the Customs Baggage (Declaration and Processing) Regulations, 2026 to create a single simplified framework for passenger declarations and processing.

(9) Deferred Duty Payment Made Monthly and "Eligible Importers" Category Introduced

Deferred duty payment is shifted from the existing 15-day system to a monthly payment system and a new class of "eligible importers" is introduced under the Deferred Payment of Import Duty Rules, 2016, improving cash flow management and ease of compliance for trusted importers.

Short Detail of Change in Customs Tariff Union Budget 2026

(1) Rationalisation and Creation of Product-Specific Tariff Entries

Customs tariff is being rationalised by introducing product-specific tariff lines to improve classification clarity, reduce disputes on rate applicability, and support accurate tracking of imports and exports, especially for value-added sectors and MSME exports.

(2) Duty Exemptions to Reduce Cost of Key Manufacturing Inputs

Customs duty exemptions are provided on important parts, components and capital goods to lower production cost and strengthen domestic manufacturing, including exemptions for parts/components/engines for aircraft manufacturing, goods for nuclear power projects, and capital goods used for manufacture of lithium-ion cells for Battery Energy Storage Systems.

(3) Sector-Specific Relief for Healthcare and Common Consumption Items

Customs duty is exempted on 17 cancer drugs and duty-free personal imports are enabled for medicines and food for 7 more rare diseases, reducing the cost burden on patients, and exemptions are also provided on critical and cost-intensive components used in manufacture of microwave ovens, helping reduce consumer cost impact.

(4) Export Facilitation through Duty-Free Input Support

To enhance export competitiveness, duty-free import of specified inputs is allowed for exporters of shoe-uppers and the time limit for export of final products using duty-free imported inputs is extended from 6 months to 1 year for exporters in leather and textile sector, improving operational flexibility and compliance ease.

(5) Support for Strategic and Clean Energy Materials

Customs tariff changes also support strategic sectors through exemptions on specified raw materials such as sodium antimonate for solar glass manufacturing, monazite used in high-performance permanent magnets for EVs, and extension of customs duty relief on ferrous scrap for two more years, helping reduce input costs and promote sustainable manufacturing.

CENTRAL EXCISE

The following rate related changes are being made in the National Calamity Contingent Duty (NCCD) and Central Excise

(1) Revision in NCCD Schedule Rates on Specified Tobacco Products (Effective from 01.05.2026):

The Seventh Schedule to the Finance Act, 2001 is being amended to revise the National Calamity Contingent Duty (NCCD) Schedule rates on chewing tobacco, jarda scented tobacco and other tobacco products under HS 2403 99 10, 2403 99 30 and 2403 99 90 respectively, w.e.f. 1st May, 2026, as detailed below. The effective rate will remain the same (i.e. at 25%) vide notification No. 01/2026-Central Excise dated 1st February, 2026.

(2) Excise Duty Computation on Blended CNG with Biogas/CBG Rationalised (Effective from 02.02.2026)

For the purpose of computation of central excise duty on CNG compressed with biogas/Compressed Biogas (CBG), the value of such blended CNG shall exclude the value of Biogas/Compressed Bio Gas (CBG) contained in it and the appropriate

Central Tax, State Tax, Union Territory Tax or Integrated Tax, as the case may be, paid on such biogas/CBG. To this effect, notification No. 11/2017-Central Excise dated 30.06.2017 is being suitably amended vide notification No. 02/2026-Central Excise dated 01.02.2026 w.e.f. 2nd February, 2026. Notification No. 05/2023-Central Excise dated 01.02.2023 is being rescinded w.e.f. 2nd February, 2026.

(3) Additional Excise Duty on Unblended Diesel Deferred till 31.03.2028

The additional excise duty of Rs 2 per litre notified to be levied on unblended Diesel vide notification No. 11/2017-Central Excise dated 30.06.2017, as amended, is being deferred till 31st March, 2028 [*Notification No. 02/2026-Central Excise dated 1st February, 2026 refers*].

LEGISLATIVE CHANGES – GOODS & SERVICES TAX

Detailed changes in CGST Act, 2017 and IGST Act, 2017 proposed in Union Budget / Finance Bill, 2026, along with reference to the old law (before amendment)

(A) Amendments in the CGST Act, 2017

(1) Section 15(3) Value of Taxable Supply (Discounts) (Clause 137)

Old law (before amendment): Post-supply discounts were allowed to be excluded from the value of supply only if such discount was established in terms of an agreement entered into at or before the time of supply and specifically linked to relevant invoices, and input tax credit attributable to the discount was reversed by the recipient.

New change (Budget 2026): Section 15(3) is amended to remove the requirement of linking the post-sale discount with an agreement, and it now refers to issuance of a credit note under section 34 where the input tax credit is reversed by the recipient.

(2) Section 34 Credit and Debit Notes (Clause 138)

Old law (before amendment): Section 34 provided the procedure for issuance of credit notes and debit notes and conditions relating to declaration in returns,

but it did not specifically include an express reference to section 15 within section 34.

New change (Budget 2026): Section 34 is amended to include the reference of section 15 in section 34, thereby linking credit note provisions more clearly with valuation provisions under section 15.

(3) Section 54(6) Refund of Tax (Provisional Refund) (Clause 139)

(Old law (before amendment): Provisional refund provisions under section 54(6) were available in specified cases, but refunds arising out of inverted duty structure were not covered for provisional refund.

New change (Budget 2026): Section 54(6) is amended to extend the provisions of provisional refund to refunds arising out of inverted duty structure.

(4) Section 54(14) Refund of Tax (Threshold for Export Refund Sanction) (Clause 139)

Old law (before amendment): There was a threshold limit prescribed for sanction of refund claims in case of goods exported out of India with payment of tax.

New change (Budget 2026): Section 54(14) is amended to remove the threshold limit for sanction of refund claims in case of goods exported out of India with payment of tax.

(5) Section 101A Constitution of National Appellate Authority for Advance Ruling (Clause 140) Effective from 01.04.2026

Old law (before amendment): Section 101A contained provisions for constitution of the National Appellate Authority for Advance Ruling, and the mechanism for hearing appeals under section 101B was dependent upon the constitution of such authority.

New change (Budget 2026): A new sub-section (1A) is inserted in section 101A to provide that the Central Government may, pending constitution of the National Appellate Authority, by notification empower an existing Authority for hearing appeals under section 101B, and it is also provided that sub-sections (2) to (13) shall not apply where a Tribunal has been empowered under sub-section (1A); an explanation is inserted to clarify that "existing Authority" also includes a tribunal.

(B) Amendments in the IGST Act, 2017

(1) Section 13(8)(b) Place of Supply for Intermediary Services (Clause 141)

Old law (before amendment): Under section 13(8)(b), the place of supply for intermediary services was deemed to be the location of the supplier of services,

which often resulted in intermediary services being treated as taxable in India even when the recipient was located outside India.

New change (Budget 2026): Clause (b) of section 13(8) is omitted, and the place of supply for intermediary services will now be determined as per the default provision under section 13(2) of the IGST Act.

(a) Background Provision Section 13 of IGST Act, 2017

Section 13 of the IGST Act, 2017 deals with the **place of supply of services where either the supplier or the recipient is located outside India**. In such cross-border transactions, determination of place of supply is critical to decide whether the supply qualifies as export of services, whether IGST is payable, and whether the transaction becomes taxable in India.

(b) Old Law before Budget 2026 Section 13(8)(b) (Special Rule for Intermediary Services)

Under the old provision, section 13(8)(b) specifically provided that **the place of supply of intermediary services shall be the location of the supplier of services**.

Accordingly, even if the recipient of intermediary services was located outside India, the place of supply was deemed to be in India when the intermediary was located in India.

This deeming fiction often resulted in intermediary services being treated as taxable in India and not qualifying as export of services, even when consideration was received in foreign exchange and the recipient was outside India.

(c) New Change in Budget 2026 Omission of Section 13(8)(b)

As per Finance Bill, 2026 (Clause 141), **clause (b) of section 13(8) is omitted**.

This means the special rule that fixed place of supply for intermediary services as the location of the supplier will no longer apply.

(d) Impact of Omission Intermediary Services Now Governed by Section 13(2) (Default Rule)

After omission of section 13(8)(b), the place of supply for intermediary services will now be determined under the **default provision in section 13(2)** of the IGST Act.

Section 13(2) provides that **the place of supply of services, except the services specified in sub-sections (3) to (13), shall be the location of the recipient of services**.

Therefore, intermediary services will now follow the recipient-based principle under section 13(2), meaning that where the recipient is located outside India, the place of supply will generally be outside India.

(e) Practical Meaning of Section 13(2) in Intermediary Cases after Amendment

Under the new framework, if an intermediary service is supplied by a person located in India to a recipient located outside India, the place of supply would be determined as the **location of the recipient outside India**, provided it is not covered by any other specific place of supply rule under section 13(3) to 13(13).

This change aligns the taxation of intermediary services with the destination-based approach, where taxability is linked to the place where the service is consumed (i.e., recipient location).

(f) Key Outcome of the Amendment

This amendment is significant because it removes the earlier deeming fiction that made intermediary services taxable in India merely because the intermediary was located in India.

Now, since place of supply will be governed by section 13(2), intermediary services supplied to foreign recipients are more likely to be treated as cross-border supplies with place of supply outside India, subject to fulfilment of other export conditions under GST.

In summary, under the old law, intermediary services were treated as supplied in India due to section 13(8)(b) which deemed place of supply as supplier's location. Under Budget 2026, section 13(8)(b) is omitted and intermediary services will now fall under the default rule of section 13(2), meaning place of supply will be the location of the recipient, thereby changing the taxability outcome in many cross-border intermediary transactions.

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