VERENDRA KALRA & CO

CHARTERED ACCOUNTANTS

INDIA budget statement 2026

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Foreword

Union Finance Minister Nirmala Sitharaman presented her record ninth Union Budget 2026 on February 1, 2026, in an articulate 83-minute address that outlined a visionary path for accelerating economic growth, social inclusivity, and resilience amid global uncertainties.

Anchored on three core "kartavyas"—accelerating growth through productivity and competitiveness, fulfilling people's aspirations via capacity-building, and ensuring "Sabka Saath, Sabka Vikas" for equitable development—the budget reassuringly projects a robust fiscal framework featuring a targeted fiscal deficit of 4.3% of GDP, a massive INR 12.2 lakh crore (INR 12.2 trillion) capital expenditure allocation, and numerous reforms across manufacturing, MSMEs, services, and infrastructure. This budget builds further on over a decade of transformative reforms—such as GST implementation, labor code modernization, and Atmanirbhar Bharat initiatives—that have sustained India's 7% GDP growth trajectory while successfully lifting 25 crore people out of multidimensional poverty, fostering a resilient economy poised for Viksit Bharat by 2047.

First Kartavya: Igniting Growth Engines

The first kartavya zeroes in on six high-impact growth engines designed to propel India as a global manufacturing powerhouse: scaling strategic sectors like biopharma, semiconductors, electronics, rare earths, chemicals, capital goods, and textiles; rejuvenating 200 legacy industrial clusters; elevating "Champion MSMEs" through dedicated funding; a monumental infrastructure push; bolstering energy security; and developing City Economic Regions (CERs) with INR 5,000 crore (INR 50 billion) outlays per region over five years. Capex allocation surges from INR 11.2 lakh crore (INR 11.2 trillion) to INR 12.2 lakh crore (INR 12.2 trillion), powering transformative projects such as seven high-speed rail corridors (including Mumbai-Pune and Delhi-Varanasi), new freight corridors, 20 inland waterways, seaplane incentives, and Carbon Capture Utilization and Storage (CCUS) with INR 20,000 crore (INR 200 billion) dedicated funding, all underpinned by innovative private risk guarantees and monetization via CPSE REITs.

Second and Third Kartavyas: Aspirations and Inclusion

Prioritizing India's services sector to capture 10% of the global share by 2047, the second kartavya launches ambitious skilling programs, including training 100,000 allied health professionals, 1.5 lakh caregivers, establishing five Regional Medical Hubs, upgrading AYUSH infrastructure with 3 AIAs, new veterinary colleges, AVGC-XR labs in 15,000 schools, a National Institute of Design in the East, 5 University Townships, girls' hostels, tourism skilling for 10,000

India–Canada diplomatic reset: India and Canada announced an agreement to restore normal diplomatic relations after a prolonged dispute.

guides and transformation of sports sector under the Khelo India Mission.

Complementing this, the third kartavya drives inclusive measures targeting farmers through Bharat-VISTAAR AI tools, high-value crops like coconut, cashew, and sandalwood, fisheries development, and reservoir enhancements; support for Divyangjan via Kaushal and Sahara Yojanas; mental health initiatives like NIMHANS-2; and Purvodaya with a Durgapur Corridor node featuring 4,000 e-buses and Buddhist circuits—all backed by INR 1.4 lakh crore (INR 1.4 trillion) in Finance Commission grants to states.

MSME Empowerment and Fiscal Backbone

Ease of compliance and liquidity to MSMe's receives a major flip through mandatory TReDS adoption for CPSEs with turnover exceeding INR 500 crore (INR 5 billion), credit guarantees up to INR 100 crore (INR 1 billion per MSME, a INR 10,000 crore (INR 100 billion) SME Growth Fund, INR 2,000 crore (INR 20 billion) Self-Reliant India Fund top-up, and "Corporate Mitras" partnerships via ICAI, ICSI, and ICMAI for handholding smaller enterprises.

Fiscal discipline shines through a declining debt-to-GDP ratio from 55.6% to a targeted 50±1% by 2030-31. 100% FDI in insurance (with riders), banking recapitalization committees, NBFC restructuring, and elevated PROI investment limits, ensure seamless credit flow for capex-intensive projects.

Direct Tax Reforms: Easing Burden for Ease of Doing Business

Direct tax proposals underscore taxpayer-centric reforms, headlined by the new Income Tax Bill effective April 1, 2026, promising a simplified regime with redesigned forms and extended ITR filing windows up to four years to minimize penalties and litigation. TDS thresholds are rationalized to alleviate cash flow pressures: interest income exemption for seniors rises from INR 50,000 to INR 1 lakh (INR 0.1 million); rent TDS from INR 2.4 lakh (INR 0.24 million) to INR 6 lakh (INR 0.6 million) annually, aiding landlords and NRIs; TCS on overseas tours, education, and medical treatments drops to a flat 2% (from 5-20%), with LRS for education/medical similarly at 2% (from 5%). Manpower services TDS clarified at 1-2%.

Additional measures include motor accident compensation interest being exempt; and startups gaining broader angel tax exemptions with flexible carried-forward losses. ICDS additional compliance has been done away through IND AS changes.

STT hikes to fund infra—futures from 0.02% to 0.05%, options premium 0.1% to 0.15%, exercise 0.125%, were taken with a pinch of salt by the bourses on the budget day.

Indirect Tax Overhaul: Export-Led Competitiveness

Changes to indirect taxes have been made in customs tariffs to enhance export led competitiveness: TReDS invoices have been classified as financial securities for seamless discounting and input tax credit; courier exports cap eliminated beyond INR 10 lakh (INR 1 million), empowering MSME shippers; GST rate inversions resolved for textiles, footwear, and diamonds to plug evasion gaps and boost competitiveness; IGST place-of-supply for intermediaries/e-commerce operators shifts to recipient location by deleting Section 13(8)(b), aligning with OECD global norms, eliminating cross-border disputes, and simplifying B2B exports. Minimum changes to GST ensure certainty for tax payers. E-invoicing threshold raised to INR 10 crore turnover; provisional refunds mandated for inverted duty structures; post-sale discounts fully creditable without conditions; RoDTEP scheme accelerated with digital tracking for faster export rebates; and scrap recycling incentives under green GST norms.

Customs duties were recalibrated for growth: personal imports duty reduced from 20% to 10% for consumer affordability; 17 oncology drugs plus 7 rare disease treatments made fully duty-free to enhance healthcare access; lithium-ion batteries, EV components, and TV open-cells attract reduced or nil rates to accelerate green mobility and electronics self-reliance; bonded warehouses gain safe harbour norms for non-residents; deferred duty payments for trusted manufacturers (AEO-compliant); 5-year toll exemptions for non-resident cargo vehicles.

The Budget's tax proposals signal a clear attempt to redirect India's tax framework towards predictability and voluntary compliance, rather than populist rate tinkering. The most striking feature of the Budget is the continued articulation of the "trust first, scrutinise later" philosophy, which has increasingly become a hallmark of this Government.

Union Budget 2026 equips businesses with fiscal firepower, tax predictability, and inclusive growth levers to navigate global headwinds confidently, seamlessly intertwining fiscal prudence, inclusive growth, and taxpayer empowerment to cement India's global economic stature.

Rightly so, these reforms transcend incremental tweaks, forging a resilient fiscal architecture that balances growth aspirations with "Sabka Vikas," while positioning India to aim for capturing services/manufacturing leadership in times of increasing global volatility, and thereby ensuring that the promise of a Viksit Bharat by 2047 remains well on course.

Verendra Kalra
Managing Partner

BUDGET FINANCIALS

(Amount in INR billion)

	Particulars	2024-25 Actuals	2025-26 BE	2025-26 RE	2026-27 BE
1	**Revenue Receipts (2+3)**	**30,366**	**34,204**	**33,423**	**35,332**
2	Tax Revenue(Net to Centre)*	25,000	28,374	26,747	28,669
3	Non-tax revenue	5,366	5,830	6,677	6,662
4	**Capital Receipts(5+6+7)**	**16,163**	**16,449**	**16,225**	**18,142**
5	Recoveries of loans	246	290	302	384
6	Other receipts	172	470	338	800
7	Borrowings & other liabilities**	15,744	15,689	15,585	16,958
8	**Total Receipts (1+4)**	**46,529**	**50,653**	**49,648**	**53,473**
9	**Total Expenditure (10+13)**	**46,529**	**50,653**	**49,648**	**53,473**
10	On Revenue account	36,009	39,443	38,691	41,255
11	Interest Payments	11,156	12,763	12,743	14,040
12	Grants in aid for creation of capital assets	2,727	4,272	3,082	4,927
13	On Capital account	10,520	11,211	10,958	12,218
14	**Effective Capital Expenditure (12+13)**	**13,246**	**15,483**	**14,039**	**17,145**
15	**Revenue deficit (10-1)**	**5,643**	**5,238**	**5,268**	**5,923**
		(1.7)	(1.5)	(1.5)	(1.5)
16	**Effective Revenue deficit (14-12)**	**2,916**	**967**	**2,186**	**996**
		(0.9)	(0.3)	(0.6)	(0.3)
17	**Fiscal deficit {9-(1+5+6)}**	**15,744**	**15,689**	**15,585**	**16,958**
		(4.8)	(4.4)	(4.4)	(4.3)
18	**Primary deficit (16-11)**	**4,589**	**2,926**	**2,842**	**2,918**
		(1.4)	(0.8)	(0.8)	(0.7)

* RE 2025-26 is adjusted by INR 9,084 crore (INR 90.84 billion) on account of net amount receivable by Centre from the states for prior years.

** Includes drawdown of cash balance

Notes:

(i) GDP for BE 2026-27 has been projected at INR 3,93,00,393 crore (INR 3,93,003.93 billion) assuming 10% growth over the estimated GDP of INR 3,57,13,886 crore (INR 3,57,138.86 billion) for 2025-26(AE).

(ii) Individual items in this document may not sum up to the totals due to rounding off.

(iii) Figures in parenthesis are as a percentage of GDP.

ECONOMIC INDICATORS

GDP Growth (at constant Market prices)

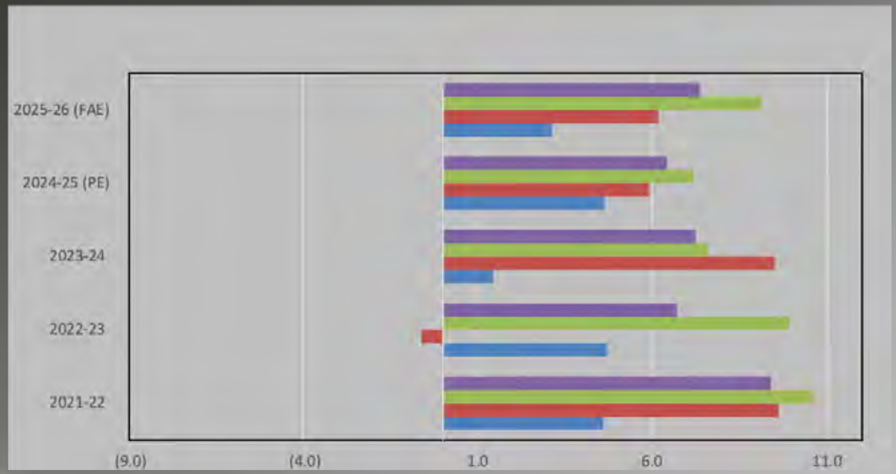
Year	%
2021-22	*9.70*
2022-23	*7.00*
2023-24	*8.20*
2024-25 (PE)	*6.50*
2025-26 (AE)	*7.40*

The MIG 21 retired after more than six decades of service, while the new Rafales contingent gears up to defend our skies.

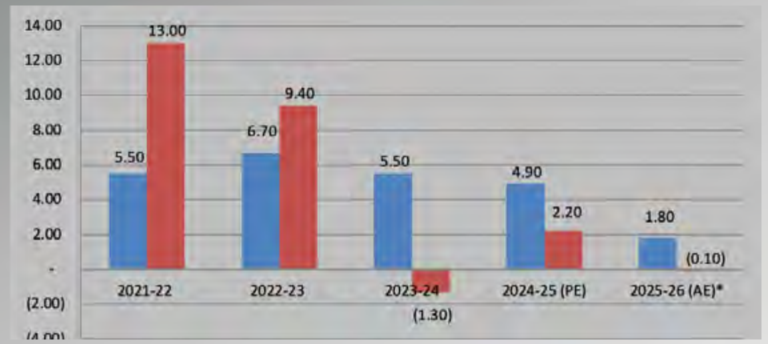
Economic Indicators

Growth in GVA
at constant Market prices

Year	Agriculture & Allied	Industry	Services	GVA
2021-22	*4.6*	*9.6*	*10.6*	*9.4*
2022-23	*4.7*	*(0.6)*	*9.9*	*6.7*
2023-24	*1.4*	*9.5*	*7.6*	*7.2*
2024-25 (PE)	*4.6*	*5.9*	*7.2*	*6.4*
2025-26 (FAE)	*3.1*	*6.2*	*9.1*	*7.3*



Inflation CPI and WPI
[Average]%

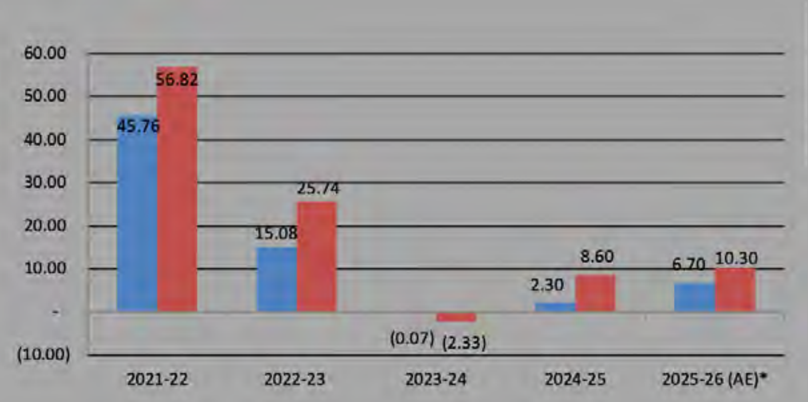


Year	Inflation CPI [Combined] [Average]	Inflation WPI [Average]
2021-22	*5.50*	*13.00*
2022-23	*6.70*	*9.40*
2023-24	*5.50*	*(1.30)*
2024-25 (PE)	*4.90*	*2.20*
*2025-26 (AE)**	*1.80*	*(0.10)*

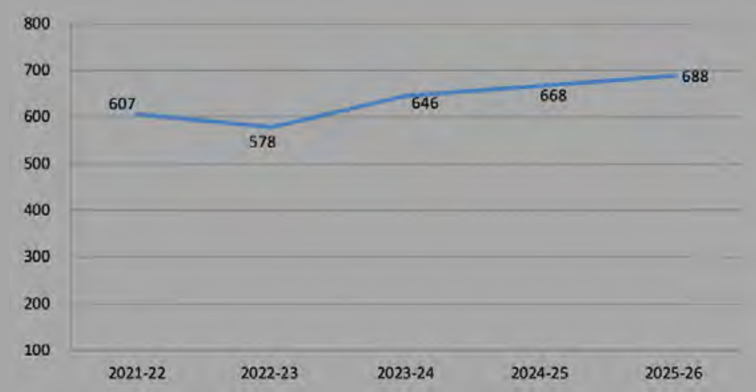
** Average April- Nov 2025*

Growth in Foreign Trade [Average%]

Year	Exports Growth	Imports Growth
2021-22	45.76	56.82
2022-23	15.08	25.74
2023-24	(0.07)	(2.33)
2024-25	2.30	8.60
2025-26 (AE)*	6.70	10.30



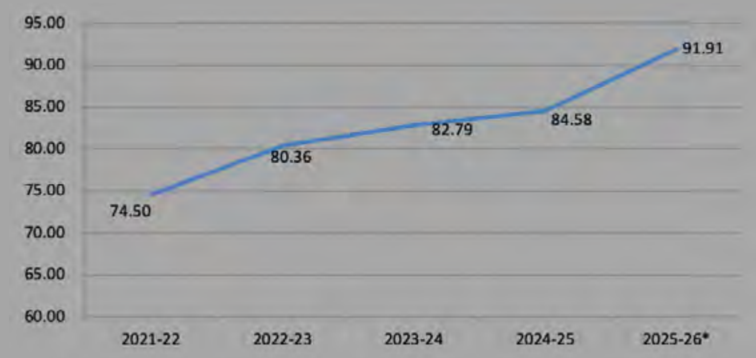
* Average April- December



Forex Reserves

Year	In USD billion
2021-22	607
2022-23	578
2023-24	646
2024-25	668
2025-26*	688

*Upto December, 2025



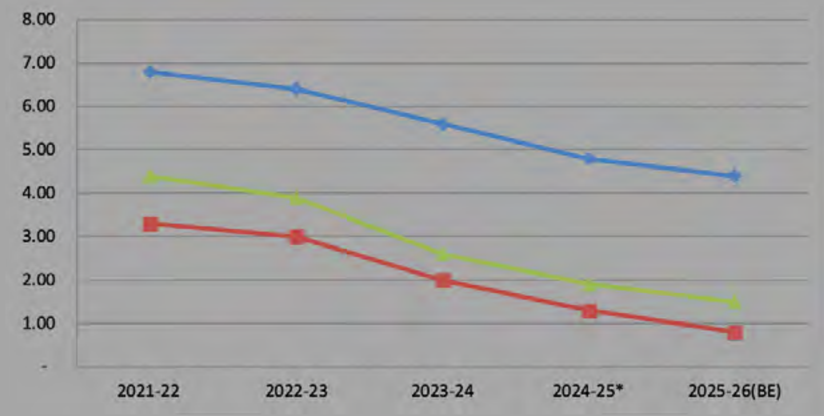
Exchange Rate

Year	Exchange Rate (INR per USD)
2021-22	74.50
2022-23	80.36
2023-24	82.79
2024-25	84.58
2025-26*	91.91

*January 1, 2026

Deficit Trends (% of GDP)

(As per the new classification of expenditure)

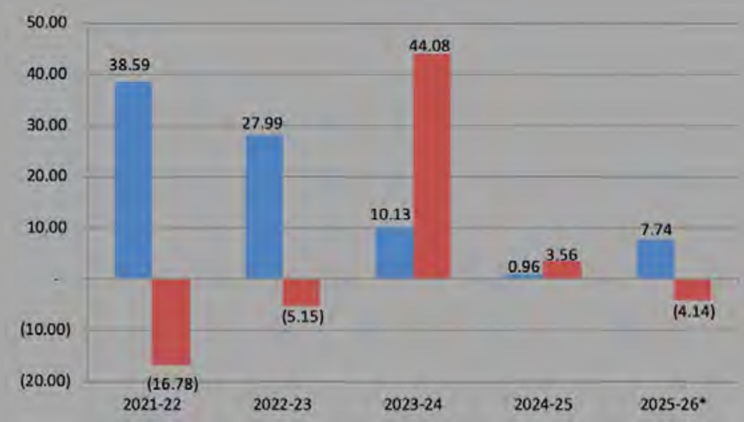


Year	Fiscal Deficit	Primary Deficit	Revenue Deficit
2021-22	6.80	3.30	4.40
2022-23	6.40	3.00	3.90
2023-24	5.60	2.00	2.60
2024-25*	4.80	1.30	1.90
2025-26(BE)	4.40	0.80	1.50

* Provisional Actuals

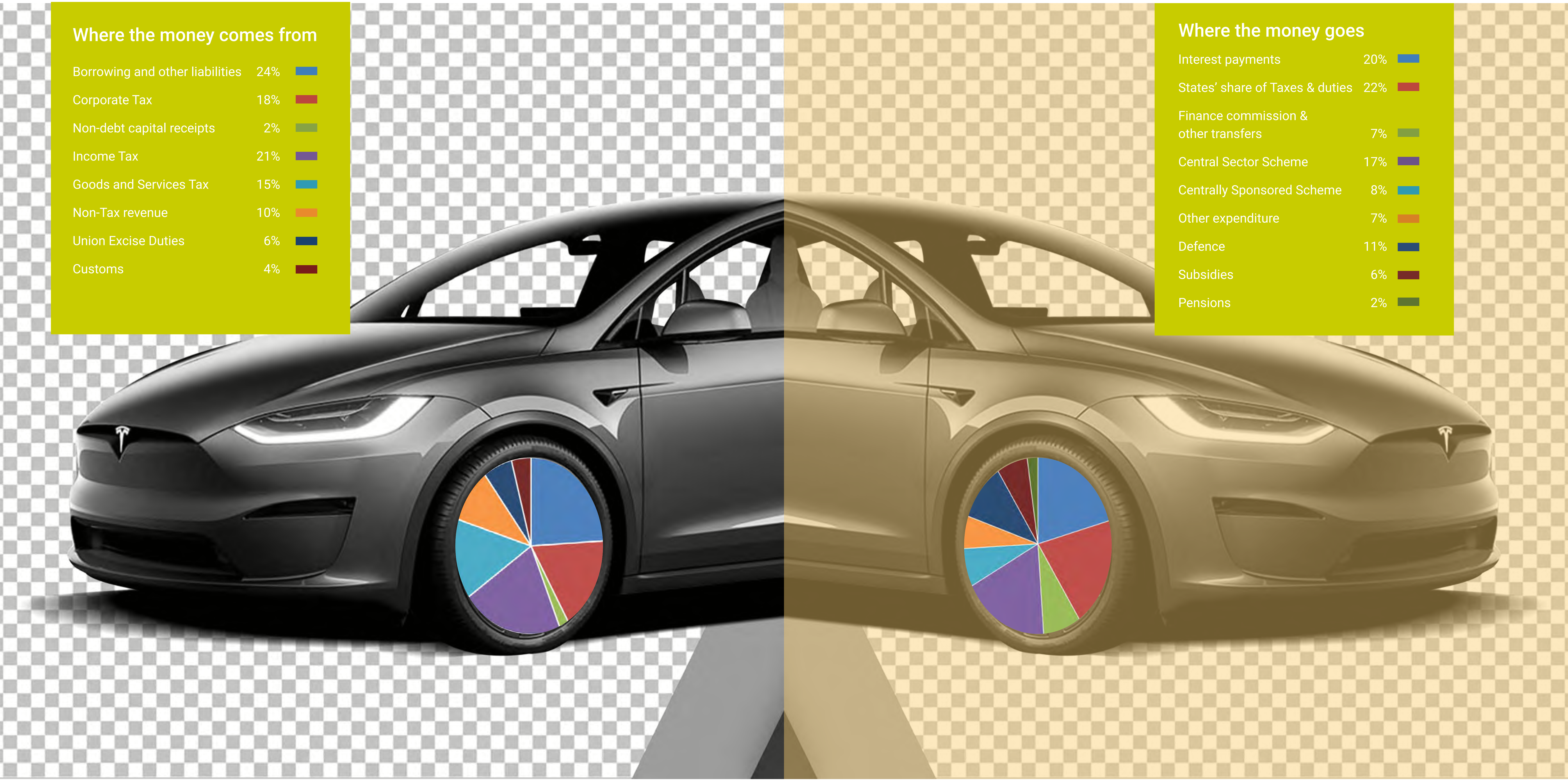
Foreign Investment

(FDI/FPI Net investment in USD billion)



Year	FDI	FPI
2021-22	38.59	(16.78)
2022-23	27.99	(5.15)
2023-24	10.13	44.08
2024-25	0.96	3.56
2025-26*	7.74	(4.14)

* April- September



Where the money comes from

Borrowing and other liabilities	24%
Corporate Tax	18%
Non-debt capital receipts	2%
Income Tax	21%
Goods and Services Tax	15%
Non-Tax revenue	10%
Union Excise Duties	6%
Customs	4%

Where the money goes

Interest payments	20%
States' share of Taxes & duties	22%
Finance commission & other transfers	7%
Central Sector Scheme	17%
Centrally Sponsored Scheme	8%
Other expenditure	7%
Defence	11%
Subsidies	6%
Pensions	2%

ECONOMIC SURVEY 2025-26

The Survey highlights India's strong macroeconomic performance, that growth was strong in the first quarter and continued to improve in the subsequent two quarters. The central bank cut interest rates

aggressively and loosened liquidity conditions. Macroprudential measures put in place in 2023 were relaxed since the underlying conditions changed, growth accelerated due to a slew of structural reforms and policy measures.

For the ongoing financial year, the Survey extensively points out that growth is good; the outlook remains favorable; inflation is contained; rainfall and agricultural prospects are supportive; external liabilities are low; banks are healthy; liquidity conditions are comfortable; credit growth is respectable; corporate balance sheets are strong; and the overall flow of funds to the commercial sector is robust. Policy dynamism and purposeful governance reinforce this backdrop.

However, the paradox of 2025 as per the Economic Survey is that India's strongest macroeconomic performance in decades has collided with a global system that no longer rewards macroeconomic success with currency stability, capital inflows, or strategic insulation. The Indian rupee underperformed in 2025 as India runs a trade deficit in goods. Its net trade surplus in services and remittances is not enough to offset it. India depends on foreign capital flows to maintain a healthy balance of payments. When they run drier, rupee stability becomes a casualty.

With the global dominant power rethinking its economic and other commitments and priorities, throwing global trade into a welter of uncertainty and global frictions mounting and fault lines widening, India's economic ambitions are confronting powerful global headwinds.

India is relatively better off than most other countries due to its strong macroeconomic fundamentals, but this does not guarantee insulation. The country benefits from a large domestic market, a less financialized growth model, strong foreign exchange reserves and a credible degree of strategic autonomy. At the same time, the global scenarios pose a common risk for India: disruption of capital flows and the consequent impact on the rupee. Only the degree and the duration will vary.

As per the Survey the economic policy in India must focus on the stability of supply, the creation of resource buffers, and the diversification of routes and payment systems. 2026 may mark the point at which policy credibility, predictability and administrative discipline cease to be mere virtues and instead become strategic assets in their own right, with lasting relevance. The external environment will require India to prioritize both domestic growth maximization and shock absorption, with a greater emphasis on buffers, redundancy, and liquidity. Put differently, India must run a marathon and sprint simultaneously.

India Becomes the 4th Largest Economy

Economic Survey

GDP Growth

The Survey now revises India's potential growth rate to 7%, up from 6.5% three years ago. At that time, weaker global tailwinds were anticipated, particularly from exports, but also noted that sustained domestic reforms and public investment could lift the economy's underlying growth capacity. That possibility is now being realized. The expansion of infrastructure — illustrated by the doubling of the airport network over the past decade and the rapid growth of freight movement through inland waterways — is easing logistics constraints and raising economy-wide efficiency.

Talking specifically about FY26, the Indian economy has maintained a strong growth momentum. The FAE place real GDP growth at 7.4%, with growth largely driven by domestic demand. Private consumption and capital formation continue to support expansion, while services remain the key contributor on the supply side. Manufacturing activity has strengthened, and agriculture has provided stability, notwithstanding structural constraints.

Agriculture and allied sector

Over the last five years, the average annual growth rate in the agriculture and allied sector has been around 4.4% at constant prices. In Q2 of FY 2025-26, the agriculture sector registered a growth of 3.5% The decadal growth of 4.45% (FY16-FY25), the highest in comparison to previous decades, has primarily resulted from the strong performance in livestock (7.1%) and fishing and aquaculture (8.8%), followed by the crop sector at 3.5%.

It is important to note that during FY 15 and FY24 the livestock sector recorded a strong expansion, with its GVA increasing by nearly 195%, registering a compound annual growth rate (CAGR) of 12.77% at current prices. The fisheries sector has also performed well, with fish production increasing by more than 140% during 2014-2025, compared to the increase from 2004-14. Thus, allied sectors are increasingly emerging as important growth engines and key contributors to enhancing farm incomes.

India's foodgrains production has witnessed a steady increase, despite certain challenges. This growth has been driven by higher output of rice, wheat, maize and coarse cereals.

Industry and Infrastructure

India's industrial performance remains robust. Industry GVA grew by 7.0% year-on-year, in real terms, in the first half of FY2025-26, marking a clear pickup after growth had eased to 5.9% in the previous fiscal year (FY2024-25). The industrial sector in FY 2025-26 continued to display resilience and further regained momentum despite persistent global headwinds. This momentum is underpinned partly by the shift towards high-technology manufacturing.

Infrastructure continues to be central to India's growth strategy, with public capital expenditure following a sustained upward trajectory since FY15 and gaining further momentum in recent years. Large-scale investments across roads, railways, ports, power, aviation and digital infrastructure have strengthened connectivity, expanded capacity and improved logistics efficiency, generating strong multiplier effects for growth and productivity. This phase has been characterized not only by rapid asset creation but also by a shift towards integrated, system-level development.

Coordinated investments across roads, railways, ports, civil aviation, energy, digital and rural infrastructure have begun to yield tangible efficiency gains—shorter travel times, faster freight movement, improved logistics performance and wider access to essential services. The institutionalization of integrated planning through PM Gati Shakti, alongside reforms in financing, asset monetization and public–private partnerships, has strengthened project preparation and execution while crowding-in private investment.

Services Sector

India's services sector contributes more than half of the Gross Value Added and serves as a major driver of exports and employment in the country. Not only does it continue to underpin domestic growth, but services have also emerged as the most stable and resilient component of GDP, acting as a high-growth, low-

volatility anchor, as is the case across the globe. The sector has recorded average annual growth of around 7-8% year after year, in sharp contrast to the more pronounced cyclical fluctuations observed in agriculture and industry.

India is the world's seventh-largest exporter of services, with its share in global services trade more than doubling from 2% in 2005 to 4.3% in 2024, and the sector continues to be the largest recipient of foreign direct investment inflows.

The current year, however, has been marked by heightened uncertainty and shifts in geopolitical alignments across countries. Despite these conditions, the services sector in India gained momentum in H1 FY26, with its share in GDP rising to 53.6%, higher than that in H1 FY25. Underlying this acceleration is the growth in services GVA by 9.3% in H1 FY26, up from 7.0% in the corresponding period of FY25. Sub-sector data reveal that the 'financial, real estate, and professional services sector remains the key driver of service growth. The growth was supported by sustained demand for credit, business services, and real estate-linked activities. 'Public administration, defense and other services have also continued to expand at a steady pace, underpinned by steady public spending and service delivery.

Prices and Inflation

In India, retail inflation (CPI) has followed a clear downward trajectory, reaching 1.7% in 2025–26, driven primarily by a steep decline in food prices—especially vegetables, pulses, and spices—supported by favorable agricultural conditions and timely policy interventions. Core inflation, while appearing sticky, is shown to be largely influenced by surges in precious metals; when these are excluded, underlying inflationary pressures are more subdued.

Inflation can be decomposed into two components: the momentum effect and the base effect. The momentum effect captures the month-on-month price changes in the current year, while the base effect reflects the influence of price movements in the corresponding months of the previous year on year-on-year inflation. In FY26, the base effect played a dominant role in shaping the inflation trajectory, with its downward influence outweighing the momentum effect in seven out of nine months, thereby exerting significant disinflationary pressure. Although price pressures did emerge during the year, they were relatively contained and confined to a few months.

RBI and IMF have projected a progressive increase in headline inflation in the upcoming fiscal, bringing the levels within the targeted range of 4% (± 2%). In December 2025, the RBI revised its inflation projections for FY26 from 2.6% to 2.0%, owing to a good kharif harvest and healthy rabi sowing. IMF has projected an inflation rate of 2.8% in FY26 and 4.0% in FY27. The RBI's forecast for headline Inflation for Q1 and Q2 of FY27 currently stands at 3.9 and 4%.

External Sector

India's external sector has evolved amidst a global environment characterized by heightened trade policy uncertainty, geopolitical realignments, and a structural shift away from a hyper-globalization phase. The reconfiguration of global trade and investment flows, increasingly influenced by considerations of national security, technological sovereignty, and strategic autonomy, has introduced both new constraints and opportunities for emerging economies. In this changing environment, India's external performance demonstrates resilience to global shocks and highlights the structural characteristics associated with a rapidly growing economy that is integrating more deeply into global markets.

On the trade front, India's total exports reached record levels of USD 825.3 billion in FY25 and USD 418.5 billion in H1 FY26, driven by strong growth in services exports and sustained momentum in non-petroleum, non-gems, and jewelry exports. The expansion of higher-value manufacturing exports, especially in electronics, pharmaceuticals, and electrical machinery, along with diversification of export destinations and import sources, has strengthened resilience amid rising protectionism and tariff uncertainties. The services trade surplus remains a key stabilizing factor, consistently offsetting a large portion of the merchandise trade deficit, supported by strong growth in software, business services, and the expanding role of Global Capability Centers.

India's current account remains stable, buoyed by robust inflows from services exports and remittances. On the capital account, India has attracted significant gross investment inflows despite a subdued global environment for foreign direct investment (FDI) and volatile portfolio flows. Gross FDI inflows have remained resilient, supported by equity investments and greenfield projects, while portfolio flows have been volatile, reflecting global financial conditions. External buffers have further strengthened, with foreign exchange reserves providing comfortable import cover and robust protection against external liabilities. India's international investment position has steadily improved, and its external debt remains moderate, with a favorable maturity profile and high reserve coverage.

Fiscal Developments

At a time when public debt remains elevated globally, and fiscal space is under strain across countries, the Central Government's fiscal trajectory stands out for combining consolidation with sustained public investment. The government's calibrated fiscal strategy, anchored in credible deficit reduction, resilient revenue mobilisation, and a decisive reorientation of spending toward capital formation, has strengthened macroeconomic stability and supported growth in the post-pandemic period. Importantly, this fiscal resilience reflects prudent fiscal policy choices and careful fiscal management.

The Centre's revenue receipts strengthened significantly, rising from an average of about 8.5% of GDP in the pre-pandemic period (FY16-FY20) to around 9.1% in the post-pandemic years (FY22-FY25). This improvement was driven primarily by buoyant direct tax collections, supported by tax reforms, technology-enabled compliance, deeper formalisation, and improved corporate profitability.

On the expenditure side, consolidation has been achieved alongside an improvement in expenditure quality. Revenue expenditure moderated from 13.6% of GDP in FY22 to 10.9% in FY25, creating space for productive capital outlays. Capital expenditure was scaled up from an average of 1.7% of GDP in the pre-pandemic period to approximately 3% in the years following the pandemic, with effective capital expenditure reaching 4% of GDP in FY25.

DIRECT TAXES

RATES OF INCOME TAX

Tax rates under section 202 of Income Tax Act, 2025 (replacing section 115BAC of Income Tax Act, 1961 i.e., New Regime)

For the tax year 2026-27, as per the provisions of section 202 of the Income Tax Act, 2025, 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:

Total Income	Rate
Up to INR 4.0 Lakh (INR 0.40 million)	Nil
INR 4.00 Lakh to INR 8.00 Lakh (INR 0.40 million to INR 0.80 million)	5%
INR 8.00 Lakh to INR 12.00 Lakh (INR 0.80 million to INR 1.20 million)	10%
INR 12.00 Lakh to INR 16.00 Lakh (INR 1.20 million to INR 1.60 million)	15%
INR 16.00 Lakh to INR 20.00 Lakh (INR 1.60 million to INR 2.00 million)	20%
INR 20.00 Lakh to INR 24.00 Lakh (INR 2.00 million to INR 2.40 million)	25%
Above INR 24.00 Lakh (INR 2.40 million & above)	30%

The above-mentioned rates shall apply, unless an option is exercised as per provisions of section 202(4) of the Income Tax Act, 2025. Thus, rates specified in section 202 are the default rates.

Tax rates under section under section 202(4) of Income Tax Act, 2025 (replacing section 115BAC (6) of Income Tax Act, 1961 i.e., Old Regime)

(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 Income Tax Act, 2025 (not being co-operative societies, firms, local authorities and companies) are as under:

Total Income	Rate
Up to INR 2.50 Lakh (INR 0.25 million)	Nil
INR 2.50 Lakh to INR 5.00 Lakh (INR 0.25 to INR 0.50 million)	5%
INR 5.00 Lakh to INR 10.00 Lakh (INR 0.50 to INR 1 million)	20%
Above INR 10.00 Lakh (INR 1 million)	30%

(ii) In the case of every individual, being a resident in India, who is of the age of 60 years or more but less than 80 years at any time during the tax year:

Total Income	Rate
Up to INR 3.00 Lakh (INR 0.30 million)	Nil
INR 3.00 Lakh to INR 5.00 Lakh (INR 0.30 to INR 0.50 million)	5%
INR 5.00 Lakh to INR 10.00 Lakh (INR 0.50 to INR 1 million)	20%
Above INR 10.00 Lakh (INR 1 million)	30%

(iii) In the case of every individual, being a resident in India, who is of the age of 80 years or more at any time during the tax year:

Total Income	Rate
Up to INR 5.00 Lakh (INR 0.50 million)	Nil
INR 5.00 Lakh to INR 10.00 Lakh (INR 0.50 to INR 1 million)	20%
Above INR 10.00 Lakh (INR 1 million)	30%

Rebate under section 156 of Income Tax Act, 2025 (replacing section 87A of Income Tax Act, 1961)

An individual resident in India is eligible for an income-tax rebate under section 156 of Income Tax Act, 2025 where if the total income does not exceed INR 5,00,000 (INR 0.5 million), a deduction of 100% of tax payable or INR 12,500 (whichever is less) is allowed in case of option is exercised as per provisions of section 202(4) of the Income Tax Act, 2025.

Further, under section 202(1) of the Income Tax Act, 2025, if income does not exceed INR 12,00,000 (INR 12 million), a deduction of 100% of tax payable or INR 60,000 (whichever is less) is permitted and if income exceeds INR 12,00,000 (INR 12 million), the rebate is limited to the excess of tax payable over the amount by which income exceeds INR 12,00,000 (INR 12 million), subject to the condition that the deduction cannot exceed the tax payable as per the applicable rates.

Surcharge

Applicable rates of surcharge, applicable for individual, HUF, AOP,

Total Income	New tax regime	Old tax regime
Exceeding INR 50 Lakh (INR 5 million) to INR 1 crore (INR 10 million)	10%	10%
Exceeding INR 1 crore (INR 10 million) to INR 2 crore (INR 20 million)	15%	15%
Exceeding INR 2 crore (INR 20 million) to INR 5 Crore (INR 50 million)	25%	25%
Exceeding INR 5 Crore (INR 50 million)	25%	37%

Surcharge rates of 25% or 37% will not apply to the income from dividends and capital gains taxable under section 196 (STCG on equity shares, equity oriented mutual funds and units of business trust), 197(LTCG on assets other than those covered under section 198), 198 (LTCG on equity shares, equity oriented mutual funds and units of business trust) and in case of AOP consisting of only companies as its members. Therefore, the highest surcharge rate on the tax payable for such incomes will be 15%.

Co-operative Societies

The rates of tax continue to be the same as that specified for AY 2026-27.

Firms/ Local authorities

The rates of tax continue to be the same as that specified for AY 2026-27.

Domestic/ Foreign Companies

The rates of tax continue to be the same as that specified for AY 2026-27.

Surcharge on income-tax

The rates of surcharge on the amount of income-tax for the purposes of the Union are the same as that specified for the AY 2026-27.

Green Hydrogen Leadership: India's largest green hydrogen unit in Paradip (indicative image)

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.

Rationalising the due date to credit employee contribution by the employer to claim such contribution as deduction

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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight

The rationalisation of the due date for deposit of employee contributions to PF, ESI and similar welfare funds by aligning it with the due date for filing the return of income provides significant relief to employers. This change addresses long-standing hardships arising from minor procedural delays, which earlier resulted in permanent disallowance despite eventual payment. While the Supreme Court's decision in Checkmate Services (P) Ltd. settled the issue under the erstwhile law, the Finance Act, 2026 reflects a conscious policy-based rationalisation under the Income-tax Act, 2025. Taxpayers and professionals must, therefore, clearly distinguish between pre-2026 and post-2026 periods to ensure correct application of the law and to avoid unnecessary litigation.

Exemption on interest income under the Motor Vehicles Act, 1988.

Section 11 of the Income-tax Act, 2025 provides exemption to specified persons subject to prescribed conditions. Under the Motor Vehicles Act, 1988, compensation and interest thereon may be awarded to an individual or their legal heir for death, permanent disability, or bodily injury. To provide relief to accident victims and their families, it is proposed to amend Schedule III to exempt income in the nature of interest received under the Motor Vehicles Act, 1988, by an individual or their legal heir.

These amendments will take effect from April 1, 2026 (Tax Year 2026-27).

No tax to be deducted at source in respect of interest on compensation amount awarded by Motor Accidents Claims Tribunal to an individual

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 INR 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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Enabling electronic verification and issuance of certificate for deduction of income-tax at lower rate or no deduction of income-tax

Section 395 of the Act pertains to issuance of certificates for TDS and TCS at nil or lower rate.

Under the existing provisions, a payee is required to apply to the Assessing Officer, who may issue such a certificate after due verification if satisfied that the recipient's total income warrants deduction of tax at a lower rate or no deduction

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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Delhi and Bihar both underwent Assembly elections, with BJP winning both.

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)(a) of the Act requires every person deducting or collecting tax to obtain a TAN while clause (c) specifies cases where obtaining TAN is not mandatory. At present, a buyer of immovable property from a resident seller is not required to obtain TAN for deducting tax at source. However, where the seller is a non-resident, the buyer is required to obtain TAN, resulting in an additional compliance burden for a one-time transaction.

To ease compliance, it is proposed to amend section 397(1)(c) to provide that a resident individual or HUF shall not be required to obtain TAN for deducting tax at source on consideration for transfer of immovable property under section 393(2). This amendment will take effect from October 1, 2026

VKC Insight

It will reduce compliance burden on the resident individual and HUF as they will not be required to obtain TAN for such transaction and can deduct income-tax based on his PAN

Enabling filing of declaration for no deduction to a depository

Section 393(6) of the Act provides for cases where tax is not required to be deducted at source, subject to the assessee furnishing a written declaration to the person responsible for paying specified income such as dividends, interest on securities, and income from mutual fund units.

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.

This amendment will take effect from October 1, 2027.

Application of TDS on supply of manpower

The supply of manpower had ambiguity on whether TDS should be deducted as "work" under section 393(1) [Table 6(i)/(ii)] or as "professional/technical services" under Section 393(1) [Table 6(iii)]. To resolve this, it is proposed to classify manpower supply as "work" under section 402(47), so TDS will apply at 1% if paid to individuals/HUFs and 2% in other cases, as per section 393(1) [Table 6(i)]

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Allowability of Deduction for Non-Life Insurance Business on Subsequent Payment of TDS

Part B of Schedule XIV of the Act lays down the manner of computing profits and gains from non-life insurance business. Under paragraph 4(1)(a), expenditure debited to the profit and loss account but inadmissible under sections 28 to 54 is required to be added back.

Section 35(b)(i) and (ii) disallow expenditure on which tax is deductible at source but has not been deducted or paid within the prescribed time, though such expenditure is allowable in the year in which the tax is subsequently deducted and paid. While paragraph 4(2) of Schedule XIV allows deduction of certain disallowed amounts on actual payment basis, a similar provision does not exist for amounts disallowed under section 35(b)(i) and (ii).

To rationalise this and allow such expenditure as a deduction in the year in which the related tax is deducted and paid, it is proposed to insert a new sub-paragraph in paragraph 4 of Schedule XIV. This amendment will take effect from 1 April 2026 and will apply from tax year 2026-27 onwards.

It is proposed to amend schedule XIV of the Act.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

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

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 HUF 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 April 1, 2026, under the RFCTLARR Act (other than the award or agreement made under section 46 of said Act).

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight

The amendment aligns the Income-tax Act, 2025 with the RFCTLARR Act, 2013, granting exemption from tax on compensation received for compulsory acquisition of any land (except under Section 46 of RFCTLARR), thus removes ambiguity and ensures such compensation is not taxable.

Exemption for Disability Pension to armed force personnel

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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Rationalising due dates for filing of return of Income

Section 263 of the Income-tax Act, 2025 provides the framework for filing returns of income, including the classes of persons required to file returns, applicable due dates, and the types of returns such as original, belated, revised, and updated returns.

Section 263(1)(c) defines the due dates for filing returns for different categories of taxpayers. To provide additional time for compliance, particularly to non-audit business taxpayers, partners of non-audit firms, and certain trusts, it is proposed to rationalise the due dates for filing returns of income. This measure is intended to facilitate preparation of books of account, ease compliance, and reduce taxpayer grievances.

Accordingly, the due date for assessee having income from business or profession whose accounts are not required to be audited, as well as partners of non-audit firms (and their spouses where applicable), is proposed to be extended from 31st July to 31st August. The due date for individuals filing returns in ITR-1 and ITR-2 will continue to remain 31st July.

S.No.	Person	Existing due dates	Proposed due dates
1.	Assessee, including the partners of the firm or the spouse of such partner (if section 10 applies to such spouse) who is required to be furnished a report referred to in section 172.	30th November	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 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).	31st October	31st October
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; (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).	31st July	31st August
4.	Any other assessee	31st July	31st July

Kerala extreme poverty claim: Kerala was reported as the first Indian state to eradicate extreme poverty

A similar rationalisation has been proposed by amending Explanation 2 to section 139(1) of the Income-tax Act, 1961, extending the due date for non-audit business cases and non-audit trusts.

It is proposed that the amendments made in Income-tax Act, 2025 shall come into force from April 1, 2026 (tax year 2026-27)

It is proposed that the amendments made in Income-tax Act, 1961 shall come into force from March 1, 2026 for assessment year 2026-27(Financial year 2025-26).

Extending the period of filing revised return

Section 263 of the Income-tax Act, 2025 lays down the framework for filing returns of income, specifying the classes of taxpayers, due dates, and the types of returns that may be furnished, including original, belated, revised, and updated returns. Section 263(5) permits a taxpayer who has filed an original or belated return to furnish a revised return to correct any omission or wrong statement, within nine months from the end of the relevant tax year or before completion of assessment, whichever is earlier.

It is proposed to extend the time limit for filing a revised return from the existing nine months to twelve months from the end of the relevant tax year. This is intended to address the practical difficulty arising from the current alignment of timelines for belated and revised returns, which restricts the ability of taxpayers filing belated returns at the end of the period to subsequently revise them. The proposed extension would allow such taxpayers an opportunity to file a revised return.

Accordingly, section 263(5) is proposed to be amended to extend the time limit for revised returns, with a fee proposed under section 428(b) for revised returns filed beyond nine months from the end of the relevant tax year.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Further, section 263 corresponds to section 139 of the Income-tax Act, 1961. Therefore, similar amendments are also proposed in section 139(5) of the Income-tax Act, 1961. Further, a fee is also proposed under section 234I. It is proposed that these amendments shall come into force from March 1, 2026 in Income-tax Act 1961 and shall be applicable for AY 2026-27 (financial year 2025-26).

VKC Insight

Fee is imposed on the total income that has been filed during revised return. If the total income filed in the revised return exceeds 5 lakh rupees and revised return is filed after 9 months from end of tax year then fee shall be INR 5000 and if the total income is less than 5 lakh rupees then fee shall be INR 1000

Allow filing of updated return in the case of reduction of losses

Section 263 of the Income-tax Act, 2025 provides the framework for filing returns of income, including original, belated, revised, and updated returns. Section 263(6) permits a taxpayer to file an updated return within 48 months from the end of the financial year succeeding the relevant tax year, subject to prescribed conditions. An updated return cannot be a return of loss, cannot reduce tax liability or increase a refund, and is not permitted where assessment, reassessment, search, survey, or prosecution proceedings are pending or completed.

While section 263(6)(b) allows filing of an updated return where a return of loss is subsequently converted into a return of income, section 263(6)(c)(i) restricts filing of an updated return where the updated return itself reflects a loss.

In view of the suggestions were received from the stakeholders, 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).

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

It is further proposed that similar amendment shall be made in the Income-tax Act, 1961 to align with the proposed amendments in the Income-tax Act, 2025. It is also proposed that amendment in the Income-tax Act, 1961 shall come into force from March 1, 2026.

Allowing filing of updated return post initiation of reassessment

Section 263(6)(c)(v) of the Act, 2025 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.

It is proposed to amend Section 263 of the Act, 2025 so that an updated return may be furnished by a person for the relevant tax year in pursuance of a notice under Section 280 of the Act, 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. In such cases, the additional income-tax payable will 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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Similar amendment will be made in Income-tax Act, 1961 so that an updated return may be furnished by a person for the relevant AY in pursuance of a notice under Section 148 of IT Act, 1961 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 180 of IT Act, 1961. The amendment in the IT Act, 1961 shall come into force retrospectively from March 1, 2026.

VKC Insight

The amendments proposed in the Finance Bill, 2026 reflect a decisive move towards enhancing procedural fairness, certainty, and voluntary compliance in assessment and appellate proceedings. By addressing structural inefficiencies and eliminating irrational constraints, the legislature has laid the groundwork for a more transparent, trust-based, and less adversarial tax administration.

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

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 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 July 1, 2015 to September 30, 2015 to enable voluntary declaration of undisclosed foreign assets acquired up to March 31, 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

The proposed scheme shall form part of the Finance Bill, 2026 and shall come into force from the date to be notified by the Central Government.

VKC Insight

It offers a one-time chance for small taxpayers to declare undisclosed foreign income or assets and gain immunity from penalty and prosecution under the Black Money Act. It mainly benefits individuals with legacy or inadvertent non-disclosures (like ESOPs, dormant accounts, or overseas savings) and will be available for a limited period as notified by the Government.

RATIONALISING PENALTY AND PROSECUTION

Relaxation of conditions for prosecution under the Black Money Act

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 INR 20 Lakh (INR 2 million).

This amendment shall take effect retrospectively from October 01, 2024.

Rationalization of prosecution proceedings

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 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 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:

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

- Maximum punishment is proposed to be limited to 2 years from its current 7 years and for the subsequent offences, it is reduced to 3 years from its current 7 years.
- Wherever punishment of offences is prescribed based on certain grading of amount of tax evaded, new grading of offences and its corresponding punishment is prescribed.
- For amount of tax evaded does not exceeds INR 10 lakh (INR 1 million), punishment of only fine is prescribed.
- Imposition of fine is introduced in lieu of or in addition of imprisonment.
- 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:

- 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”.
- 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”.
- 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”.
- In case of offences related to tax deducted at source (TDS):
  * 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.
  * 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:
    » with simple imprisonment for a

term up to two years, or with fine, or with both, in a case where amount of such tax exceeds INR 50 lakh (INR 5 million)

» with simple imprisonment for a term up to six months, or with fine, or with both, in a case where amount of such tax exceeds INR 10 lakh (INR 1 million) but does not exceed INR 50 lakh (INR 5 million)

» with fine, in any other case.

- 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:

  * with simple imprisonment for a term up to two years, or with fine, or with both, in a case where amount of such tax exceeds INR 50 lakh (5 million)

  * with simple imprisonment for a term up to six months or with fine, or with both, in a case where amount of such tax exceeds INR 10 lakh (INR 1 million) but does not exceed INR 50 lakh (INR 5 million)

  * with fine, in any other case.

- In case of wilful attempt to evade tax,

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

    » 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 underreported income exceeds INR 50 lakh (INR 5 million)

    » 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 (INR 1 million) but does not exceed INR 50 lakh (INR 5 million)

    » with fine, in any other case.

  * In section 478(2), punishment of offences under section 478(2) is proposed to be changed in the manner given below:

    » with simple imprisonment for a term up to two years, or with fine, or with both, in a case where the amount sought to be evaded exceeds INR 50 lakh (INR 5 million)

    » 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 (INR 1 million) but does not exceed INR 50 lakh (INR 5 million)

    » with fine, in any other case.

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

    » 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 INR 50 lakh (INR 5 million)

    » 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 (INR 1 million) but does not exceed INR 50 lakh (INR 5 million)

    » with fine, in any other case.

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

    » with simple imprisonment for a term upto two years, or with fine, or with both, in a case where the amount of tax exceeds INR 50 lakh (INR 5 million)

    » with simple imprisonment upto six months, or with fine, or with both, in a case where the amount of tax, exceeds 10 lakh (INR 1 million) but does not exceed INR 50 lakh (INR 5 million)

    » with fine, in any other case.

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

    » 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.

    » 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.

  * In section 482, punishment for the

offences mentioned under section 482 is proposed to be changed in the manner given below:

» 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 INR 50 lakh (INR 5 million).

» 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 (INR 1 million) but does not INR 50 lakh (INR 5 million).

» with fine, in any other case.

* 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".

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

  » 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 INR 50 lakh (INR 5 million).

  » 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 (INR 1 million) but does not exceed INR 50 lakh (INR 5 million).

  » with fine, in any other case.

* 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".

* 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:

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

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

* 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 to 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.

The amendments in section 473 to 485 & 494 of Income-tax Act, 2025 will take effect from April 1, 2026.

The amendments in section 275A to 278A & 280 of Income-tax Act, 1961 will take effect from March 1, 2026.

Rationalizing the period of block in case of other persons

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 –

- 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
- 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.

This amendment will take effect from April 1, 2026, for search or requisition is initiated or made as the case maybe, on or after April 1, 2026.

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

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.

This amendment will take effect from April 1, 2026, for search or requisition is initiated or made as the case maybe, on or after April 1, 2026.

Rationalisation of Penalties into Fee

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 –

- 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 year, or
- INR 1.50 lakh (INR 0.15 million)

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 transactions or specified domestic transactions. Presently, a penalty of INR 1 lakh (INR 0.1 million) 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 INR 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 INR 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:

- Penalty under section 446 for failure to get accounts audited is converted to a fee under proposed section of 428(c). Accordingly, Graded fees of INR 75,000 and 1.5 lakh (INR 0.15 million) 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 assets.
- Penalty under section 447 for failure to furnish report under section 172 is converted to a fee under section 428(4). Graded fee of INR 50,000 and 1 lakh (INR 0.1 million) is provided depending upon the period of delay.
- 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 INR 1 lakh (INR 0.1 million) is also proposed to be made in existing penalty under section 454(2) of the Act.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight

This amendment basically says that instead of charging penalties, in case of failures such as not getting accounts audited (Section 446), not furnishing accountant's report for international/domestic transactions (Section 447) and not furnishing statements of financial transactions (Section 454), which often lead to disputes and litigation, replaces with graded mandatory fees. Also, for continuous delays in filing financial transaction reports, there will now be a maximum cap of INR 1,00,000 so the cost doesn't keep piling up endlessly. In simple terms, this change makes the rules clearer, reduces unnecessary legal fights and ensures that small mistakes or delays are dealt with through fixed fees rather than heavy penalties

Imposition of penalty for under-reporting or misreporting of income within Assessment Order:

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.

Section 274 of the Income-tax Act, 1961 (herein after as "1961 Act") 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.

Online Gaming Act: The Promotion and Regulation of Online Gaming Act, 2025 received the President's assent, creating a new legal framework for online gaming.

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.

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.

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 taxpayers apart from providing consistency in levying of penalty.

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 amendments shall come into force in the Income-tax Act, 2025, from April 1, 2026 and shall be effective from April 1, 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 April 1, 2027.

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 March 1, 2026, and shall be effective from April 1, 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 April 1, 2027.

VKC Insight

The amendment proposes that penalties for under-reporting or misreporting of income will now be imposed within the assessment order itself, avoiding separate proceedings and reducing compliance burden.

Increase in maximum amount of penalty in section 466 of the Act

Section 254 empowers income tax authorities to collect information from business premises by requiring the proprietor, employee, or any person present and connected with the business or profession to furnish such information as may be authorised. Section 466 of the Act provides for levy of penalty where a person fails to comply with the provisions of section 254 and does not furnish the requisite information, with the existing maximum penalty being INR 1,000.

In order to ensure proportionality, enhance deterrence, and encourage voluntary compliance, it is proposed to amend section 466 to increase the maximum penalty from INR 1,000 to INR 25,000.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Rationalisation of tax rate under section 195 and penalty under section 443 in respect of certain Income

Section 195 of the Income-tax Act, 2025 provides for taxation of income referred to in sections 102 to 106, which deal with unexplained credits, investments, assets, expenditure, and amounts borrowed or repaid through negotiable instruments such as hundis. Under section 195(1), such income is presently taxable at a rate of 60%. Further, section 443 provides for a penalty of 10% of the tax payable where the assessed income includes such unexplained income.

It is considered that the existing tax rate of 60% on income covered under sections 102 to 106 is disproportionate and requires rationalisation.

Accordingly, it is proposed to amend section 195 to reduce the tax rate on such income from 60% to 30%. Further, to align the penalty framework with provisions relating to misreporting of income, it is proposed to omit section 443 and subsume the penalty on such income under section 439(11), treating it as a case of under-reporting due to misreporting.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Expanding the scope of immunity from penalty or prosecution under section 440 of the Act

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:

- the tax and interest payable as per Assessment order, has been paid within the period specified in notice of demand.
- No appeal against 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 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 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 as a consequence of misreporting.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight

The amendment to Section 440 expands immunity from penalty and prosecution to cases of under-reporting due to misreporting and to unexplained income/assets, provided taxpayers pay an additional tax (100% or 120% of the tax on such income). This aims to encourage early dispute settlement and reduce litigation.

Expanding the scope of immunity from imposition of penalty or prosecution under section 270AA

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:

- the tax and interest payable as per Assessment order, has been paid within the period specified in notice of demand.
- no appeal against such assessment order has been filed.

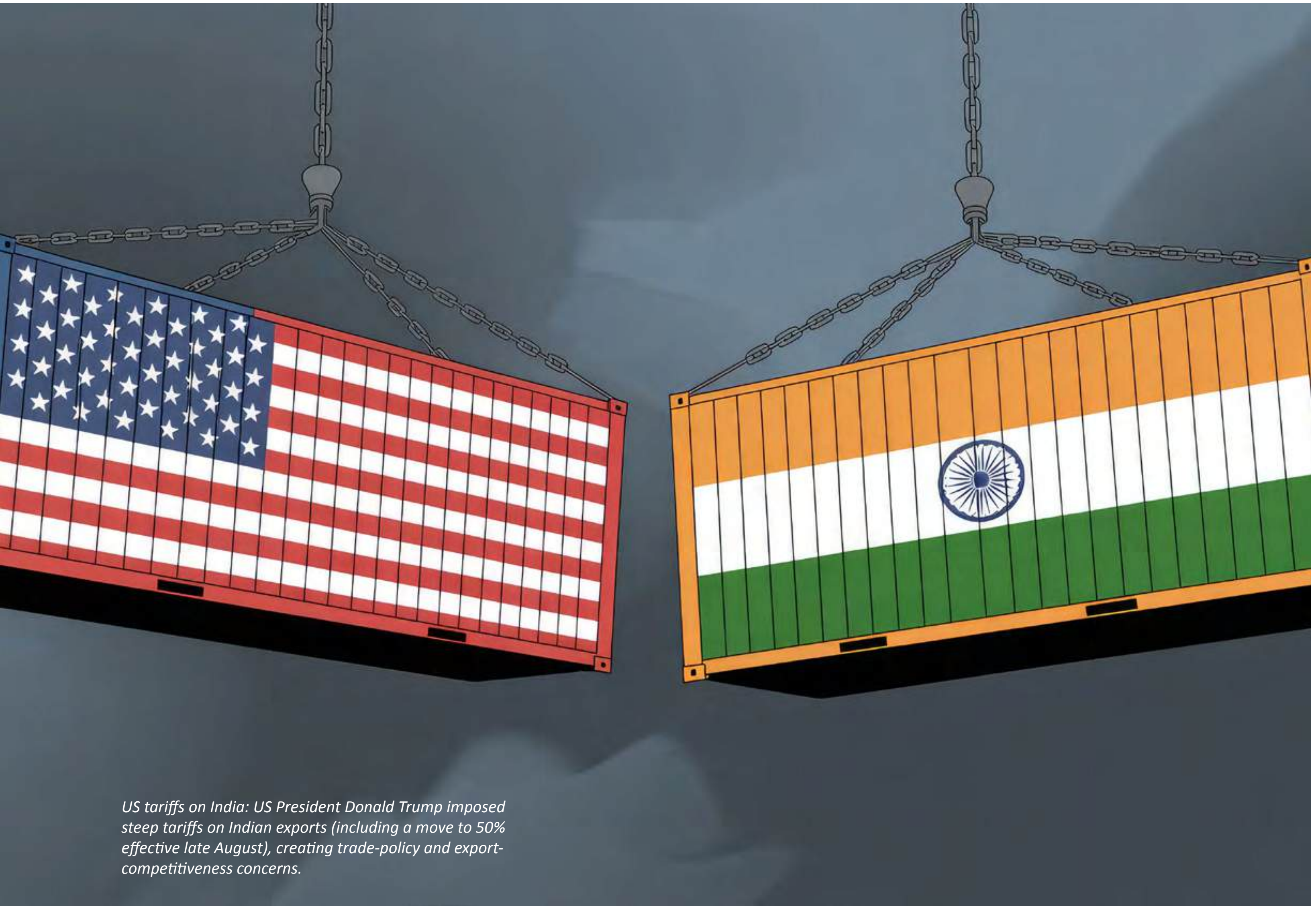
Further, sub-section (2) provides that assessee shall file an application within one month from the end of the month in which said assessment order has been received by him. Furthermore, sub-section (3) provides that assessing officer shall, subject to the fulfilment of the aforementioned conditions, 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 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 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.

This amendment will take effect from March 1, 2026 for AY 2026-27 or any earlier Assessment years.



US tariffs on India: US President Donald Trump imposed steep tariffs on Indian exports (including a move to 50% effective late August), creating trade-policy and export-competitiveness concerns.

COOPERATIVES

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

The provisions of section 149(2)(d) 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 January 1, 2026, and which are further distributed by it to its members.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

It is proposed that the deduction for dividends received from other cooperative societies may be allowed under the new tax regime as well. This deduction will be allowed provided that these dividends are further distributed to their members.

Widening scope of deduction under section 149 by including ancilliary activities of cattle feed and cotton seeds

The existing provisions under section 149(2)(b) 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 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).

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

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

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).

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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

SUPPORTING IT SECTOR AS INDIA'S GROWTH ENGINE

Amendment of section 169 of the Income-tax Act, 2025 relating to providing effect to advance pricing agreements

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 April 1, 2026, in respect of tax year beginning from April 1, 2026 and subsequent years.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

To rationalise the existing provision, said amendment has been proposed wherein the APA may not only modify the income of person who has entered into the agreement but also the income of his associated enterprise for the tax years covered under such agreement. This may lead to double taxation of income that is the subject matter of APA in the hands of the associated enterprise.

ATTRACTING GLOBAL BUSINESS AND INVESTMENT

Exemption to a foreign company on any income arising in India by way of procuring data centre services from a specified data centre

The existing provisions of section 11 read with Schedule IV specify 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 March 31, 2047.

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

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

- "data centre" means a dedicated secure space within a building or centralised location where computing and networking equipment is concentrated for the purpose of collecting, storing, processing, distributing or allowing access to large amounts of data;
- "data centre services" means services provided by a data centre through the use of physical infrastructure including land, buildings, mechanical electrical power equipment's, cooling system, security and information technology infrastructure including servers, computers, storage systems, operating systems, security solutions, network and associated software platforms, networking and other equipment, human resource in India;
- "specified data centre" means a data centre which:
    * 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
    * is owned and operated by an Indian company.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Allowing expenditure on prospecting of critical minerals as deduction

Section 51 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. 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.

To incentivise the prospecting and exploration of the critical minerals, it is proposed to expand the list of minerals in Schedule XII, thereby making expenditure on prospecting and exploring of such critical minerals also eligible for deduction under section 51.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

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

The existing provisions of section 11 read with Schedule IV specify 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 2030-31, 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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Exclusion of specified business of Non-residents which are under presumptive taxation from the applicability of Minimum Alternate Tax

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 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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Exemption to non-residents for rendering services under a notified Scheme in India

The existing provisions of section 11 read with Schedule IV 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 5 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 5 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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

Many non-resident experts visit India for rendering specialised services in various domain areas. However, owing to provisions contained in section 6 of the Income-tax Act, 2025 read with section 5 of the Income-tax Act, 2025 and by the virtue of their physical presence in India beyond threshold period, their global income becomes chargeable to tax in India. In order to encourage such individuals to provide specialized services in India the aforesaid amendment has been proposed.

Extension of period of deduction for units in IFSC and rationalization of tax rate

The provisions of section 147 provide for 100% deduction 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 period of deduction will be taxed at rate of 15%.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Rationalisation of certain terms for treasury centres in IFSC

Exiting Clause (40) of 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,

- one of the group entities is a "Finance company" or a "Finance unit"; and
- 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:
- "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 (50 of 2019);
- "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:
    * 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
    * controls the composition of the Board of Directors.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

RATIONALISATION OF CORPORATE TAX REGIME

Rationalization of Minimum Alternate Tax provisions

The existing provisions under section 206 provide 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 IFSC). 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.

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

Provision of set-off of MAT credit was not available to companies who have previously opted for new tax regime. A company's shift to the New Tax Regime prior to this amendment was a business decision that was made on basis of the financials, status and analysis of the impact of deductions/exemptions in respective years and the tax liability upon these companies in the old as compared to the new tax regime. They have been benefitted as they had paid tax at rates applicable to new regime which were less than the old regime.

RATIONALISATION OF OTHER DIRECT TAX PROVISIONS

Rationalisation of TCS rates

Section 394(1) 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:

Nature of receipt	Current Rate	Proposed Rate
Sale of alcoholic liquor for human consumption	1%	2%
Sale of tendu leaves	5%	2%
Sale of scrap	1%	2%
Sale of minerals, (coal or lignite or iron ore)	1%	2%
Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding INR 10 lakh (INR 1 million)	(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.
Sale of "overseas tour programme package" including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	(a) 5% of amount or aggregate of amounts up to INR 10 lakh (INR 1 million); (b) 20% of amount or aggregate of amounts exceeding INR 10 lakh (INR 1 million).	2%

This amendment will take effect from April 1, 2026 (Tax Year 2026-27).

Clarification regarding jurisdiction to issue notice u/s 148 where income has escaped assessment and for carrying out pre-assessment procedure u/s 148A

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 (AO) 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 AO.

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 AO by virtue of section 144B(3) which provides that "assessment unit" wherever used in said section shall refer to an AO having powers so assigned by the Central Board of Direct Taxes (CBDT).

It is clear from the aforesaid scheme 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 AO 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 in force from April 1, 2026, with the object of providing 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 AO for the purposes of section 148 and section 148A shall mean and shall always be deemed to have meant AO 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.

The clarification in Income-tax Act, 1961 shall come into force with retrospective effect from April 1, 2021.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

By clearly vesting the power to issue notices under sections 148 and 148A in the Jurisdictional Assessing Officer and limiting the faceless assessment mechanism to handling reassessment proceedings in line with section 144B, the Legislature aims to remove uncertainty, promote consistent application of the law, and minimize unnecessary litigation. The Finance Budget 2026 delivers a clear legislative resolution to the long-standing debate over the authority empowered to issue notices under section 148. With this clarification, future reassessment disputes are expected to focus on adherence to statutory safeguards rather than jurisdictional objections, thereby reinforcing certainty and stability within the reassessment framework of the Income-tax Act.

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 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 dated August 14, 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.

The Income-tax Act, 2025, is coming into force from April 1, 2026, with the objective of providing simplicity in language and provisions 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 DIN, 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.

This clarification in Income-tax Act, 1961 shall come into force from October 1, 2019.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

The amendment clarifies that 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.

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

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 (TPO) or where the person is a non-resident. As per this section, the AO is required to forward a draft of the proposed order of assessment (draft order) to the eligible assessee.

The eligible assessee has two choices, either to 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 AO 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 courts' judgements, 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 April 1, 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.

The clarification in Income-tax Act, 1961 shall come into force with retrospective effect from April 1, 2009, in respect of section 153 and from October 1, 2009, in respect of section 153B. This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight

The proposal will also be applicable in cases where any draft of assessment order is required to be made under section 144C of the Income-tax Act, 1961 or section 275 of the Income-tax Act, 2025, provided only for those draft assessment which are made on or after 1st of April, 2027.

Clarifying the manner of computation of sixty days for passing the order by the Transfer Pricing Officer

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 PY, and the 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 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 to 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 TPO 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 April 1, 2026, with the objective 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.

This clarification in Income-tax Act, 1961 shall come into force with retrospective effect from June 1, 2007 and in the Income-tax Act, 2025, it will take effect from April 1, 2026 (Tax Year 2026-27).

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

Chapter XIII-G provides for special provisions relating to the 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 to give effect to Tonnage tax scheme extended to inland vessels.

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

- Section 227 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.

- Section 227(9)(b)(iii) 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.
- Section 228 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.
- Section 232 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.
- Sub-section (13) of section 232 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.
- Sub-section (17) of section 232 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.
- 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”.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

Penalty provision for non-furnishing of statement or furnishing inaccurate information in a statement on transaction of crypto-assets

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

To ensure compliance with the provisions of section 509 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 INR 200 per day for non-furnishing of statement and INR 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 to provide penalty provisions for non-furnishing of statement and for furnishing inaccurate information in the statement.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

Penalty provision has been proposed to be introduced to ensure compliance on part of the respective Reporting Entities as regards furnishing of statement and refraining them from furnishing inaccurate information in a statement.

Providing definition of “commodity derivative”

Section 66(33) 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 the Income-tax Act, 1961, it is proposed to provide definition of “commodity derivative” as has been provided in the said Act. It is proposed to amend section 66 of the Income-tax Act, 2025.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

Providing definition of “authorised person”

Section 402(27) 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 and accordingly, it is proposed to amend section 402(27) of the Income-tax Act, 2025.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

Correction in provisions relating to Income from House Property and Permanent Account Number

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 FY in which certificate of completion of construction is obtained from the competent authority.

Section 22 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 exceed INR 2 lakh (INR 0.2 million) where property is acquired or constructed with borrowed capital. However, this ceiling INR 2 lakh (INR 0.2 million) 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 corresponds to section 24 of the Income-tax Act, 1961. In the Income-tax Act, 1961, the aggregated amount of deduction for the interest on borrowed capital was inclusive of prior period interest payable. In this regard, it is proposed to amend section 22(2) to provide that aggregate amount of deduction for interest on borrowed capital shall be inclusive of prior period interest payable.

Section 262(10)(c) provides that CBDT may make rules for categories of documents pertaining to business or profession in which Permanent Account Number (PAN) 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 PAN in such documents which does not relate to business or profession.

It is pertinent to mention that section 262(10)(c) corresponds to section 139A(5)(c) of the Income-tax Act, 1961 which provides that every person shall quote PAN in all the 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 CBDT to make rules for quoting PAN in documents related to such transactions which do not relate to business or profession.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

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

Section 400(2) 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) does not contain aforesaid clause which binds the guidelines.

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. It is proposed to amend section 400(2).

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

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) 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, it is proposed to amend section 536(2)(h) 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.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

With the imminent repeal of the Income-tax Act, 1961 the provisions therein relevant to disability pension will not apply anymore. Therefore, it is proposed to explicitly provide for exemption for disability pension in the Income-tax Act, 2025. Moreover, the scope for exemption has been increased to include para-military forces as well.

Amendment in the definition of the specified fund

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.

To provide clarity, it is proposed to amend the Note 1 (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.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

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

Existing provisions of section 352(4) [Table: Sl. No. 8.B] inter alia provide 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 NPOs having the same or similar objects. However, the said provision does not capture the situation where a registered NPO has merged with any other registered NPO having same or similar objects as was provided under section 12AC of the Income-tax Act, 1961.

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

- the other registered NPO has same or similar objects; and
- the said merger fulfils such conditions as may be prescribed.

Further, 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:

- entity other than a registered NPO;
- registered NPO having objects same or similar to it but the said merger does not fulfil such conditions, as may be prescribed; or
- registered NPO that does not have same or similar objects.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

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

Existing provisions of section 351 inter alia specifies activities which constitute "specified violation" by a registered NPO, and it includes violation on account of commercial activities by registered NPO 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, 2025 to align it with the Income-tax Act, 1961.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

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

Section 332 inter alia specifies the persons who may apply for registration as a registered NPO. The aforesaid provision also includes the persons referred to in Schedule VII (Table: Sl. No. 10 to 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.

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

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

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

Existing section 349 inter alia provides furnishing of return by a registered NPO within the time limit allowed under section 263(1)(c). To enable furnishing of belated return by registered NPO 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 this section.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

Non-allowability of Interest as a deduction against Dividend Income

Dividend income and income from units of mutual funds constitute passive investment receipts taxable under the head "Income from other sources". Section 93 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. Section 93(2) has been proposed to be amended 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.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

Rationalisation of Schedule XI relating to Provident Funds

The provisions relating to Recognised Provident Funds (RPF) 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), it is proposed to rationalise and align the income-tax provisions governing RPF with the prevailing EPF framework.

Paragraph 4(c) of Part A of Schedule XI restricts employer contributions by reference to parity with employee contributions and mandates annual crediting of such contributions. As a unified monetary ceiling of INR 7.5 lakh (INR 0.75 million) on aggregate employer contributions has been prescribed under section 17(1)(h), it is proposed to omit Paragraph 4(c).

Paragraph 4(f) of Part A of Schedule XI governs 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.

Paragraph 5(4) of Part A of Schedule XI permits discretionary relaxation of employer-employee contribution parity based on a salary threshold of INR 500 or contingent bonus structures. As a unified monetary ceiling of INR 7.5 lakh (INR 0.75 million) on aggregate employer contributions has been prescribed under section 17(1)(h), it is proposed to omit Paragraph 4(c).

Paragraph 6(a) of Part A of Schedule XI deems employer contributions exceeding 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).

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.

Paragraph 1(e) of Part C of Schedule XI restricts investment of provident fund monies in Government securities to 15%. This ceiling is inconsistent with the current investment norms prescribed by the Ministry of Labour and Employment and the EPF 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.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

Exemption for Sovereign Gold Bond

Section 70(1)(x) provides an exemption from capital gains tax in respect of income arising from redemption of Sovereign Gold Bonds issued by the RBI under the Sovereign Gold Bond Scheme, 2015. Sovereign Gold Bonds have been issued by the RBI 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 RBI from time to time.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

Increase in tax rates of Securities Transaction Tax

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 recognized market infrastructure. Under the STT framework, the obligation to collect and deposit the tax is placed on recognized 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 as under, which will address issue of disproportionate increase in speculation in futures and options trading:

Particulars	Earlier Rate	Proposed Rate
Sale of an option in securities	0.1% of the option premium	0.15% of the option premium
Sale of an option where the option is exercised	0.125% of the intrinsic price	0.15% of the intrinsic price
Sale of a future in securities	0.02% of the traded price	0.05% of the traded price

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27) and the revised rates shall apply to transactions in options and futures in securities entered into on or after that date.

Taxation of buyback of shares

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) 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%.

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

VKC Insight:

This proposed amendment effectively removes the anomaly of treating the consideration as dividend income while simultaneously recognizing a capital loss, since the transfer consideration was earlier taken as nil, compelling the assessee to carry forward such loss for adjustment against future capital gains. Moreover, no deduction under section 57 was permitted in such cases. The amendment, therefore, reflects a well-considered legislative correction, for which due credit must be given to the Hon'ble Finance Minister.

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) 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 Income-tax Act, 2025 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).

This amendment in Income-tax Act, 2025 will take effect from April 1, 2026 (Tax Year 2026-27).

India became the second-largest 5G market globally with over 950 million internet users.

INDIRECT TAXES

Unless specified otherwise, amendments proposed in the Finance Bill, 2026, vide clause 137 to 141 will come into effect from a date when the same will be notified concurrently, as far as possible, with the corresponding amendments to the similar Acts passed by the States & Union territories with legislature.

GOODS AND SERVICES TAX (GST)

Amendments in the CGST Act, 2017:

- Sub-section (3) of section 15 of the Central Goods and Services Tax Act, 2017 is being amended to do away with the requirement of linking the post-sale discount with an agreement and to refer to issuance of credit note under section 34 where the input tax credit is reversed by the recipient.

VKC Insight:

The amendment intends to remove the requirement of having a pre existing agreement or invoice linkage for post sale discounts, thereby reducing disputes and documentation burdens. It further provides that such discounts must now be given only through a GST credit note under Section 34, with the recipient reversing the corresponding ITC when the value of supply is reduced.

- Section 34 of the Central Goods and Services Tax Act, 2017 is being amended so as to include the reference of section 15 in the said section.

VKC Insight:

The amendment intends to insert a reference to Section 15 within Section 34 of the CGST Act, ensuring that the issuance of GST credit notes is fully aligned with the revised valuation rules for post sale discounts. This linkage clarifies that any reduction in value under Section 15(3) must be affected through a credit note issued under Section 34, strengthening legal clarity and consistency in handling ITC reversal and discount related adjustments.

- Sub-section (6) of Section 54 of the Central Goods and Services Tax Act, 2017 is being amended to extend the provisions of provisional refund to refunds arising out of inverted duty structure.
- VKC Insight: This amendment intends to extend provisional refunds to inverted duty structure (IDS) cases, allowing taxpayers to receive 90% of the refund upfront, similar to exports. This measure improves liquidity for businesses suffering working capital blockage due to accumulated ITC and will operate through a risk based provisional sanction system as recommended by the GST Council.
- Sub-section (14) of Section 54 of the Central Goods and Services Tax Act, 2017 is being amended to remove the threshold limit for sanction of refund claims in case of goods exported out of India with payment of tax.

VKC Insight:

The amendment intends to remove the threshold limit in Section 54(14), allowing exporters to claim GST refunds for all export consignments made with payment of tax, irrespective of their value. This change especially benefits small and low value exporters, including those using courier or postal modes, by ensuring refund eligibility without restrictions and improving liquidity.

- Sub-section (1A) is being inserted in Section 101A of the Central Goods and Services Tax Act, 2017 to provide that the Central Government may, pending the constitution of the National Appellate Authority, by notification empower an existing Authority, for hearing appeals under section 101B of the CGST Act, 2017; and to provide that the provisions of sub-sections (2) to (13) shall not be applicable where a Tribunal has been so empowered under sub-section (1A). An explanation to sub-section (1A) is also being inserted to clarify that the existing Authority also includes a tribunal. The amendment will be effective from April 1, 2025.

Amendments in the IGST Act, 2017:

- Clause (b) of sub-section (8) of section 13 of the Integrated Goods and Services Tax Act, 2017 is being omitted so as to provide that the place of supply for "intermediary services" will be determined as per the default provision under section 13(2) of the IGST Act.

VKC Insight:

The amendment omits clause (b) of Section 13(8) of the IGST Act, thereby removing the special rule that previously deemed the place of supply for intermediary services to be the location of the supplier. With this omission, the place of supply for such services will now be determined under the default rule in Section 13(2), meaning it will be the location of the recipient of services. This change ensures that intermediary services provided to recipients outside India can now qualify as exports, enabling eligibility for zero rating and export related benefits.

CUSTOMS

Amendments in The Customs Act, 1962:

- Sub-section (2) of section 1 of the Customs Act, 1962 is being amended to extend the jurisdiction of the said Act beyond the territorial waters of India, for the purpose of fishing and fishing related activities.

- In section 2, a new clause is being inserted to define the expression 'Indian-flagged fishing vessel'.

VKC Insight:

A new clause is being inserted in Section 2 of the Customs Act, 1962 to formally define the term "Indian flagged fishing vessel", providing legal clarity for identifying fishing vessels registered under the Indian flag. This definition supports the broader legislative changes that extend customs jurisdiction beyond territorial waters for fishing and related activities, ensuring proper regulation and enforcement over such vessels operating in India's extended maritime zones.

- Sub-section (6) of section 28 is being amended so as to provide that the penalty paid under sub-section (5) of section 28, on determination under sub-section (6) thereof, shall be deemed to be a charge for non-payment of duty.

VKC Insight:

It intends to clarify that the penalty paid under Section 28(5), which is the reduced penalty available when a person voluntarily pays the duty and interest, shall be treated as a charge for non payment of duty once the proper officer makes a determination under Section 28(6). This ensures that such penalty is legally recognized as arising directly from the failure to pay duty, strengthening the enforceability and conclusiveness of proceedings under Section 28.

- Sub-section (2) of section 28J is being amended so as to provide that advance ruling under sub-section (1) of that section shall remain valid for a period of five years or till there is a change in law or facts on the basis of which the advance ruling has been pronounced, whichever is earlier.

- The proviso to the said sub-section is also being substituted so as to provide that in respect of any advance ruling in force on the date on which the Finance Bill, 2026 receives the assent of the President, the Authority shall, upon a request by the applicant, extend the validity of the ruling for five years from the date of the ruling.

VKC Insight:

The amendment intends to extend the validity of an advance ruling under Section 28J(1) to five years, or until there is a change in the law or facts forming the basis of the ruling, whichever occurs earlier, replacing the existing three year limit. It also substitutes the proviso to ensure that any advance ruling already in force on the date the Finance Bill, 2026 receives Presidential assent may, upon the applicant's request, be granted an extended validity of five years from the original date of the ruling, thereby enhancing certainty and continuity for businesses relying on such rulings.

- A new section 56A is being inserted to provide special provisions for fishing and fishing related activities by an Indian-flagged fishing vessel beyond territorial waters of India. It also provides that fish harvested beyond the territorial waters of India may be brought into India free of duty and to treat fish that has landed at foreign port as export of goods in such manner as may be provided by rules. It also provides to make regulations to provide for the form and manner of making an entry in respect of fish harvested by an Indian-flagged fishing vessel including its declaration, custody, examination, assessment of duty, clearance, transit or transhipment.

- In the Customs Act, for section 67, the following section shall be substituted, namely: - "67. The owner of any warehoused goods may remove them from one warehouse to another, subject to such conditions as may be prescribed.". The proposed section seeks to do away with the requirement of prior permission of the proper officer under the

Infrastructure Milestones: Inauguration of the Sonamarg Tunnel

said section for removal of warehoused goods from one custom bonded warehouse to another.

- In section 84 of the Customs Act, in clause (b), for the words “the examination”, the words “the custody, examination” shall be substituted. The amendment seeks to enable the Board to make provisions for the custody of goods imported or to be exported under the regulations framed under this section.

VKC Insight:

The amendment to Section 84(b) of the Customs Act substitutes the words “the examination” with “the custody, examination”, thereby empowering the Board to frame regulations not only for the examination of imported or export goods but also for their custody. This change ensures that the regulatory framework explicitly covers the handling and safekeeping of goods prior to clearance or export, strengthening administrative control and aligning with broader customs modernisation measures.

- These changes will come into effect from the date of assent of the Finance Bill, 2026

Please scan the above QR code from your mobile phone, or [CLICK HERE] to read Amendments to the First Schedule to The Customs Tariff Act, 1975

SECTOR WISE IMPACT

Infrastructure Milestones: the fully operational Udhampur-Baramulla Railway in J&K

AGRICULTURE SECTOR

- Integrated development of 500 reservoirs and Amrit Sarovars to be taken up to strengthen the fisheries value chain in coastal areas and enable market linkages involving start-ups and women-led groups together with Fish Farmers Producer Organisations
- Credit-Linked Subsidy Programme for scaling-up and modernisation of livestock enterprises to be set up to enhance creation of livestock, dairy and poultry-focused integrated-value chains and encourage creation of Livestock Farmer Producers Organisations
- Coconut Promotion Scheme to be launched to increase production and enhance productivity through various interventions including replacing old and non-productive trees with new saplings/plants/varieties in major coconut growing States
- A dedicated programme to be set up for Indian cashew and cocoa to make India self-reliant in raw cashew and cocoa production
- Government to partner with State Governments to promote focused cultivation and post-harvest processing to restore the glory of the Indian Sandalwood ecosystem
- Cultivation of walnuts, almonds and pine nuts to be supported via a dedicated programme to enhance farmer incomes and in bringing value addition by engaging youth

NTPC Limited is pivoting towards a cleaner energy portfolio with an ambitious plan to establish 30 GW of nuclear power capacity by 2047, contributing to India's 100 GW nuclear target.

- Bharat-VISTAAR—a multilingual AI tool to be launched to integrate the AgriStack portals and the ICAR package on agricultural practices with AI systems

INDUSTRIAL AND CORPORATE SECTOR

- Biopharma SHAKTI with an outlay of INR 10,000 crores (INR 100 billion) over the next 5 years to be launched to develop India as a global Biopharma manufacturing hub
- India Semiconductor Mission 2.0 to be launched to produce equipment and materials, design full-stack Indian IP, and fortify supply chains
- Outlay of the Electronics Components Manufacturing Scheme increased to INR 40,000 crore (INR 400 billion)
- States of Odisha, Kerala, Andhra Pradesh and Tamil Nadu to be supported to establish dedicated Rare Earth Corridors to promote mining, processing, research and manufacturing of Rare Earth Permanent Magnets
- Scheme to be launched to support States in establishing 3 dedicated Chemical Parks, through challenge route, on a cluster-based plug-and-play model
- Hi-Tech Tool Rooms to be established by CPSEs at 2 locations as digitally enabled automated service bureaus that locally design, test, and manufacture high-precision components at scale and at lower cost
- A Scheme for Enhancement of Construction and Infrastructure Equipment to be introduced to strengthen domestic manufacturing of high-value and technologically advanced CIE
- Scheme for Container Manufacturing to be launched to create a globally competitive container manufacturing ecosystem, with a budgetary allocation of INR 10,000 crore (INR 100 billion) over a 5-year period
- An Integrated Programme with 5 sub-parts to be launched for the labour-intensive Textile Sector
- Mahatma Gandhi Gram Swaraj initiative to be initiated to strengthen khadi, handloom and handicrafts and to help in global market linkage and branding
- Scheme to revive 200 legacy industrial clusters to

be introduced to improve their cost competitiveness and efficiency through infrastructure and technology upgradation

- A dedicated INR 10,000 crore (INR 100 billion) SME Growth Fund, to create future Champions, incentivizing enterprises based on select criteria to be set up
- Liquidity support to MSMEs to be enhanced with additional measures in TReDs to develop a secondary market, enhance liquidity and settlement of transactions and professional support by developing a cadre of 'Corporate Mitras', especially in Tier-II and Tier-III towns

INFRASTRUCTURE AND INVESTMENT SECTOR

- Public capex outlay to be increased to INR 12.2 lakh crore (INR 12.2 trillion) to continue the growth momentum in the infrastructure sector
- Infrastructure Risk Guarantee Fund to be set up to provide prudently calibrated partial credit guarantees to lenders
- Environmentally sustainable movement of cargo to be promoted through Dedicated Freight Corridors, 20 new National Waterways over next 5 years to be set up and a Coastal Cargo Promotion Scheme to be launched
- CCUS technologies with an outlay of INR 20,000 crore (INR 200 billion) over the next 5 years to be set up to achieve higher readiness levels in end-use applications across five industrial sectors, including, power, steel, cement, refineries and chemicals
- INR 5,000 crore (INR 50 billion) per city economic region over 5 years to be allocated for implementing plans through a challenge mode with a reform-cum-results based financing mechanism
- To promote environmentally sustainable passenger systems, 7 High-Speed Rail corridors between cities as 'growth connectors' to be developed.

HEALTH SECTOR

- Existing institutions for Allied Health Professionals to be upgraded and new AHP Institutions established in private and Government sectors
- A strong Care Ecosystem, covering geriatric and allied care services to be built with 1.5 lakh caregivers to be trained in the coming year
- 5 Regional Medical Hubs, in partnership with the private sector to be established to promote India as a hub for medical tourism services
- To meet growing global demand for Ayurvedic products following measures to be taken: (i) 3 new All India Institutes of Ayurveda to be set up, (ii) AYUSH pharmacies and Drug Testing Labs for higher standards of certification ecosystem to be developed to make available more skilled personnel and (iii) the WHO Global Traditional Medicine Centre in Jamnagar to be upgraded to bolster evidence-based research, training and awareness for traditional medicine

FINANCE SECTOR

- High Level Committee on Banking for Viksit Bharat to be set up to comprehensively review the banking sector
- The Power Finance Corporation and Rural Electrification Corporation to be restructured to achieve scale and improve efficiency in the Public Sector NBFCs
- Foreign Exchange Management (Non-debt Instruments) Rules to be reviewed to create a more contemporary, user-friendly framework for foreign investments
- Total return swaps on corporate bonds to be introduced to access to funds and derivatives on corporate bond indices
- Incentive of INR 100 crore (INR 1 billion) for a single bond issuance of more than INR 1000 crore (INR 10 billion) to be introduced to encourage the issuance of municipal bonds of higher value by large cities
- Individual Persons Resident Outside India to be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme

EDUCATION SECTOR

- 5 University Townships in the vicinity of major industrial and logistic corridors to be created to host multiple universities, colleges, research institutions, skill centres and residential complexes
- 1 girls' hostel to be established in every district since in higher Education STEM institutions, prolonged hours of study and laboratory work pose some challenges for girl students
- To promote Astrophysics and Astronomy via immersive experiences, 4 Telescope Infrastructure facilities to be set up
- National Institute of Hospitality to set up by upgrading the existing National Council for Hotel Management and Catering Technology

OTHER SECTORS

- A pilot scheme for upskilling 10,000 guides in 20 iconic tourist sites through a standardized, high-quality 12-week training course in hybrid mode to be set up in collaboration with an Indian Institute of Management
- A National Destination Digital Knowledge Grid to be established to digitally document all places of significance; cultural, spiritual and heritage
- Ecologically sustainable mountain trails, turtle trails, bird watching trails to be set up in various states
- First ever Global Big Cat Summit to hosted by India with heads of governments and ministers from 95 range countries to deliberate on collective strategies for conservation
- 15 archeological sites to be developed
- Khelo India Mission to be set up to transform the Sports sector over the next decade
- Divyangjan Kaushal Yojana to be launched to train Divyangjans in IT, AVGC sectors, Hospitality and Food and Beverages sectors which offer task-oriented and process-driven roles, which are suitable for them
- NIMHANS-2 to be set up in North India and upgrade National Mental Health Institutes in Ranchi and Tezpur as Regional Apex Institutions

GLOSSARY

AAR	Authority for Advance Ruling
AE	Advance Estimates
AIDC	Agriculture Infrastructure and Development Cess
AIF	Alternative Investment Funds
ALP	Arm's Length Price
AMT	Alternate Minimum Tax
AO	Assessing Officer
AOP	Association of Persons
APA	Advance Pricing Agreement
API	Application Programming Interface
AVGC	Animation, Visual effects, Gaming, and Comic
AY	Assessment Year
BaaS	Battery as a Service
BAR	Board for Advance Ruling
BE	Budget Estimate
BEPS	Base Erosion and Profit Shifting
BIT	Bilateral Investment Treaty
BM Act	Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
BOD	Board of Directors
BOI	Body of Individuals
BPL	Below Poverty Line
BSE	Bombay Stock Exchange
CAD	Current Account Deficit
CbC	County-By-Country
CBDC	Central Bank backed Digital Currency
CBDT	Central Board of Direct Taxes
CBU	Completely Built Unit
CCPS	Compulsory convertible Preference Shares
CCUS	Carbon Capture Utilization and Storage
CDT	Commodities Transaction Tax
CFPI	Consumer Food Price Index
CFS	Consolidated Financial Statements
CGST	Central Goods and Service Tax
CGTMSE	Credit Guarantee Trust for Micro and Small Enterprises
CIF	Cost Insurance Freight
CII	Cost Inflation Index
CIT	Commissioner of Income Tax
COA	Cost of Acquisition
COI	Cost of Improvement
C-PACE	Centre for Processing Accelerated Corporate Exit
CPSE	Central Public Sector Enterprises
CSI	Continental Shelf of India
CTT	Commodity Transaction Tax
CVD	Counter Vailing Duty
DBU	Digital Banking Unit
DDT	Dividend Distribution Tax
DFI	Development Financial Institution
DPI	Digital Public Infrastructure
DTA	Domestic Tariff Area
ECB	External Commercial Borrowings
ECGC	Export Credit and Guarantee Corporation
ECLGS	Emergency Credit Line Guarantee Scheme
ECS	Electronic Clearing System
EDF	Electronic Development Fund
EEZ	Exclusive Economic Zones
EGR	Electronic Gold receipt
EOU	Export Oriented Unit
DIN	Document Identification Number
FA	Finance Act
FCI	Food Corporation of India
FCP	Final Cane Price
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FII	Foreign Institutional Investor
FMV	Fair Market Value
FPI	Foreign Portfolio Investors
FTP	Foreign Trade Policy
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GERD	Gross Domestic Expenditure on R&D
GIFT	Gujarat International Finance Tec
GOBARdhan	Galvanizing Organic Bio-Agro Resources Dhan
GST	Goods & Services Tax
GSTN	Goods & Services Tax Network
GTA	Goods Transport Agency
HEFA	Higher Education Financing Agency
HFC	Housing Finance Companies
HSD	High Speed Diesel
HUF	Hindu Undivided Family
IBC	Insolvency and Bankruptcy Code, 2016
ICD	Inland Container Depot
ICMR	Indian Council of Medical Research
ICT	Information & Communication Technology
IDR	Indian Depository Receipts
IFSC	International Financial Services Centre
IGST	Integrated Goods and Service Tax
IIFCL	India Infrastructure Finance Company Limited
IIM	Indian Institute of Management
IIT	Indian Institute of Technology
IIT-B	Institute of Information Technology-Bangalore
IMR	Infant Mortality Rate
Ind-AS	Indian Accounting Standards
INR	Indian National Rupee
Invit	Infrastructure Investment Fund
IO	Initiating Officer
IPTV	Internet Protocol Television
IRDA	Insurance Regulatory and Development Authority
IRGD	Interest rate growth rate differential
IRS	Indian Revenue Service
IT	Information Technology
ITA	Income-tax Authority
ITAT	Income Tax Appellate Tribunal
ITC	Input Tax Credit
JV/ WOS	Joint Venture/Wholly Owned Subsidiary
KCC	Kishan Credit Card
LCD	Liquid Crystal Display
LLP	Limited Liability Partnership
LPG	Liquified Petroleum Gas
LTCG	Long-term Capital Gain
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate affairs
MF	Mutual Fund
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MISHTI	Mangrove Initiative for Shoreline Habitats & Tangible Incomes
MLD	Market Linked Debentures
MLI	Multilateral Instrument
MRP	Maximum Retail Price
MSE	Micro and Small Enterprises
MSME	Micro Small and Medium Enterprises
MSP	Maximum Selling Price
MTFP	Medium-Term Fiscal Policy
MUDRA	Micro Units Development Refinance Agency
NaBFID	National Bank for Financing Infrastructure and Development
NeFAC	National Faceless Assessment Centre
NBFC	Non-Banking Financial Companies
NCD	Non-convertible Debentures
NCDC	National Cooperative Development Corporation
NHAI	National Highways Authority of India
NHB	National Housing Bank
NHB Act	National Housing Bank Act, 1987
NPOs	Non-Profit Organisations
NPS	National Pension Scheme
NR	Non-Resident
NRI	Non-Resident Indian
NSE	National Stock Exchange
NSIL	New Space India Limited
NTLM	National Language Translation Mission
ODI	Offshore Derivative Instruments
ONGC	Oil and Natural Gas Corporation
OPC	One person Company
OTS	One Time Settlement
PACS	Primary Agricultural Credit Societies
PAN	Permanent Account Number
PBPT	Prohibition of Benami Property Transactions Act
PCARD	Primary Co-Operative Agricultural and Rural Development Bank
PCBA	Printed Circuit Board Assembly
PDMA	Public Debt Management Agency
PE	Permanent Establishment
PLI	Production Linked Incentive
PM-JAY	Pradhan Mantri Jan Arogya Yojana
POEM	Place of Effective Management
PPA	Power Purchase Agreement
PPP	Public Private Partnership
Pr.CIT	Principal Commissioner of Income-tax
PSU	Public Sector Undertaking
PY	Previous Year
QFI	Qualified Foreign Investors
QIB	Qualified Institutional Buyer
QIP	Qualified institutional Placement
R&D	Research & Development
RAMP	Raising and Accelerating MSME Performance
RBI	Reserve Bank of India
RE	Revised Estimates
REIT	Real Estate Investment Fund
RIC	Road and Infrastructure Cess
RPF	Recognised Provident Fund
RRB	Regional Rural Bank
RSE	Recognised Stock Exchange
RSP	Retail Sale Price
RTE	Right to Education
SAD	Specific Advaloram Duty
SAF	Superannuation Funds
SC/ST	Scheduled Cast/Scheduled Tribe
SCRA	Securities Contract (Regulation) Act, 1956
SDT	specified domestic transaction
SEBI	Securities & Exchange Board of India
SEP	Significant Economic Presence
SEZ	Special Economic Zones
SFC	State Finance Corporations
SGST	State Goods and Service Tax
SIDBI	Small Industries and Development Bank of India
SITP	Software Information Technology Park
SMP	Statutory Minimum Price
SMR	Small Modular Reactor
SPV	Special Purpose Vehicle
SSI	Small Scale Industry
SWAHIM	Special Window for Affordable and Mid-Income Housing
STT	Securities Transaction Tax
TAN	Tax Collection/ Deduction Account number
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
TI	Total Income
TP	Tansfer Pricing
TPO	Transfer Pricing Officer
UID	Unique Identification
UIDAI	Unique Identification Authority of India
UIDF	Urban Infrastructure Development Fund
ULIP	Unit Linked Insurance Plan
USD	US Dollar
UTGST	Union Territory Goods and Service Tax
VCU	Venture Capital Undertaking
VsV	Vivaad se Vishwas
WPI	Wholesale Price Index
WTO	World Trade Organization
YoY	Year on year
ZCBS	Zero Coupon Bonds
NSS	National Savings Scheme
VDA	Virtual Digital Asset
SUUTI	Specified Undertaking of Unit Trust of India
CBIC	Central Board of Indirect Taxes and Customs
ISD	Input Service Distributor
FTWZ	Free Trade Warehousing Zone
PCB	Polychlorinated biphenyl
PCT	Polycyclohexylenedimethylene terephthalate
PBB	Polybrominated biphenyl
WCO HS	World Customs Organization (WCO) Harmonised System (HS)
TOLA	(Taxation and Other Laws [Relaxation and Amendment of Certain Provisions] Act)
RFCTLARR	Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act

- This document summarises the important provisions of the Budget 2026 proposals as placed before the Parliament.
- Topics presented are grouped into chapters and sections to facilitate an understanding of the proposals. These are, however, not mutually exclusive.
- The provisions discussed under the Direct Tax segment refer to the relevant sections of the Income-tax Act, 2025. Wherever corresponding or aligned provisions under the Income-tax Act, 1961 are applicable, the same have been specifically indicated.
- Unless otherwise stated, Direct Tax Proposals will be applicable from AY 2027-28. Indirect Tax Proposals will however, be applicable with immediate effect under the Provisional Collection of Taxes Act, 1931.
- The proposals are subject to amendment as the Finance Bill passes through the Parliament.
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