

UNION BUDGET – 2026

ANALYSIS OF DIRECT TAX PROPOSALS

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GENERAL

- There are no changes in the slab structure or rate of tax
- The FM in para 99 of the Budget speech categorically states that the Income-Tax Act, 2025 will come into force from 1st April, 2026 and that simplified IT Rules and Forms to be notified shortly
- Finance Bill 2026 amends both Income Tax Act 1961 as well as Income Tax Act 2025.
- The new Act which was brought in as a simplification exercise carries a unique distinction of
 - 87 amendments
 - Omission of provisions even before coming into force
 - After having done away with alphabets following sections in the 1961 Act through the simplified IT Act, 2025, this bill adds a new Section 354A

THE NUMBERS

	2025-2026 Budget Estimates (Rs. in Crores)	2025-2026 Revised Budget Estimates (Rs. in Crores)	2026-2027 Budget Estimates (Rs. in Crores)
Corporation Tax	1082000	1109000	1231000
Taxes on income	1438000	1312000	1466000
Goods and Services Tax	1178000	1046480	1019020
Excise Duty	317000	336550	388910
Customs	240000	258290	271200



MINIMUM ALTERNATE TAX

- New tax regime for companies introduced in 2019.

- 22% concessional rate was applicable and the company had to give up specified incentives and holidays, and such companies were also exempt from MAT.
- The old regime continued where the companies could claim incentives and tax holidays, however, they were subject to MAT.
- *Companies with accumulated MAT credit may have found it beneficial to remain in the old tax regime in order to utilize the credit in cases where their normal tax payable was higher than the tax payable under MAT.*

- **The present proposal seems to be in a direction to induce companies to opt for the new regime.**

- The proposals are –

- **Reduction in the MAT rate to 14% from the earlier 15%.**
- **MAT becomes the final tax in the old regime.**
- **No carry forward and MAT credits will not be available.**
- **MAT credits accumulated under the old regime can no longer be utilized in the old regime.**
- **Accumulated MAT credit can be utilized only if the companies shift to the new regime.**
- **Utilization of MAT credit in the new regime is capped at 25% of the taxes payable under the regular provisions.**
- A Foreign company cannot opt for the new regime.
- In the case of foreign company, set-off would be allowed to the extent of difference between the tax on total income and MAT for the tax year in which normal tax is more than MAT.
- Amendment effective from 01.04.2026 and will apply to tax year 2026-2027 and subsequent tax year.

MINIMUM ALTERNATE TAX

- Section 206(1)(l)(iii) of the IT Act, 2025 provides for an exemption from the applicability of the provisions of Minimum Alternate Tax (MAT) to certain foreign companies who opt for presumptive rate of tax.
- Certain businesses were not covered by the exemption.
- In order to ensure parity the following businesses opting for presumptive tax scheme have also been exempted:
 - Business of operation of cruise ships.
 - Business of providing services or technology for the setting up an electronics manufacturing facility in India to a resident company.

BUYBACK OF SHARES

- The earlier amendment virtually recharacterized capital gains into dividend with cost being treated as a capital loss.
- Income Tax Act, 2025 continued the same treatment.
- **Amendment to bring it back under capital gains.**
 - It is proposed to amend Section 2(40)(f) and Section 69 so that the consideration received on buy back is taxed as capital gains.
 - The capital gains tax payable by the promoter shareholders shall be subjected to additional income tax over and above the income tax payable under normal provisions for capital gains.
 - Effective tax rate would be 22% where the promoter is a company and 30% for others.
 - Amendment effective from 01.04.2026 and for tax year 2026-2027 and subsequent tax years.



ADVANCE PRICING AGREEMENTS

- Only the person who has entered into an Advance Pricing Agreement (APA) with the board can file modified return of income.
- Associated Enterprise (AE) whose income and tax liability are correspondingly affected by the APA cannot file a modified return or claim refunds.
- Section 169 has been amended to provide for –
 - The person entering into APA to file modified return.
 - Any AE of such person may also furnish a modified return.
 - The return or modified return should be accordance with terms of APA.
 - The return is to filed within 3 months from the end of the month in which APA was entered.
 - Beneficial to group entities to facilitate modification of returns within the same time frame.
- Amendment effective from 01.04.2026 and applicable to tax year 2026-2027 onwards.

TRANSFER PRICING

- Section 92CA of the 1961 Act deals with transfer pricing.
- 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.
- Similar provisions in Section 166(7) of the IT Act, 2025.
- The Madras High Court in the case of ***Pfizer Health Care India Pvt. Ltd. (2021) 433 ITR 28*** held that 60 days period does not include the last date of limitation.
- There was consideration litigation with reference to computation and matters are pending before the Supreme Court.

TRANSFER PRICING

- Section 92CA(3A) is being retrospectively amended and Section 166(7) is also being amended.
- The time limits are as under:
 - *where the period of limitation expires on 31st of March of any year (not being a leap year), the order under sub-section (3) may be made up to the 30th of January of that year;*
 - *where the period of limitation expires on 31st of March of any year (being a leap year), the order under sub-section (3) may be made up to the 31st of January of that year;*
 - *where the period of limitation expires on 31st of December of any year, the order under sub-section (3) may be made up to the 1st of November of that year.”.*
- **The amendment to Section 92CA(3A) is with retrospective effect from 01.04.2009.**
 - ***Amendment in 2026 with retrospective effect from 01.04.2009 to specify how to compute 60 days.***
- *The amendment to Income Tax Act, 2025 is with effect from 1st April 2026.*



TIME-LIMIT FOR COMPLETION OF ASSESSMENT UNDER SEC.144C

- Time lines for completion of proceedings when order is referred to DRP.
- Question was whether entire process of Section 144C needs to meet the overall time limit of Section 153 or 153B even when timelines for passing orders are built into Section 144C.
- The Madras High Court in the case of *CIT Vs. Roca Bathroom Products Private Limited (2022 SCC Online Madras 8777)* held that the entire process of section 144C has to satisfy the overall time limit of section 153 or 153B.
- The Supreme Court in *ACIT Vs. Shelf Drilling Ron Tapmeyer Ltd. 2025 INSC 946* while dealing with this issue arrived at a split verdict.
- Retrospective amendment to the effect that 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.
 - Amendment of Section 144(4A), 144(4B), 144(13A), 144(13B), 153(10) and 153B(1A) w.r.e.f. 01.04.2009
 - Similar amendments have been made in Section 275 and 286 of the 2025 Act.



THE DIN AROUND DIN

- **Section 292B of the Income Tax Act.**

- Circular No.19/2019 dated 14.08.2019 provided for quoting of a computer-generated Document Identification Number (DIN) on assessment orders.

- A number of High Courts had annulled proceedings on the ground that DIN was not available in the assessment order.

- Delhi High Court in the case of ***Brandix Mauritius Holdings Ltd (2023) 456 ITR 34***. held that absence of DIN made the assessment *non-est*.

- Madras High Court in the case of ***CIT Vs. Sutherland Global Services Inc. (2025) 175 taxmann.com 877*** had held that

- When the directions of DRP did not contain DIN as Circular No.19/2019, the communication or proceedings of DRP would not be in conformity with para 2 and para 3 of the Circular.

- Invalid and deemed to never have been issued.

- Consequently, assessment orders passed on those directions would not be sustainable.

- 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. - ***PCIT Vs. Tata Medical Centre (2023) 459 ITR 155 (Calcutta HC)***

THE DIN AROUND DIN

- **Section 292BA of the Income Tax Act** inserted to provide that *notwithstanding anything contained in any judgment, order or decree of any court, for the removal of doubts it is hereby clarified for the purposes of Section 292B that no assessment under any provisions of this Act shall be invalid on the ground of any mistake, defect or omission in respect of quoting of a computer-generated Document Identification Number, if the assessment order is referenced by such number in any manner.*

- While there is nothing in the Bill to indicate retrospectivity. The Memorandum states that the clarification in the IT Act, 1961 shall come into force from 1st day of October 2019 and the amendment in the IT Act, 2025 shall come into force from 1st April 2026.

- Similar amendment has been made in Section 522 of the 2025 Act.

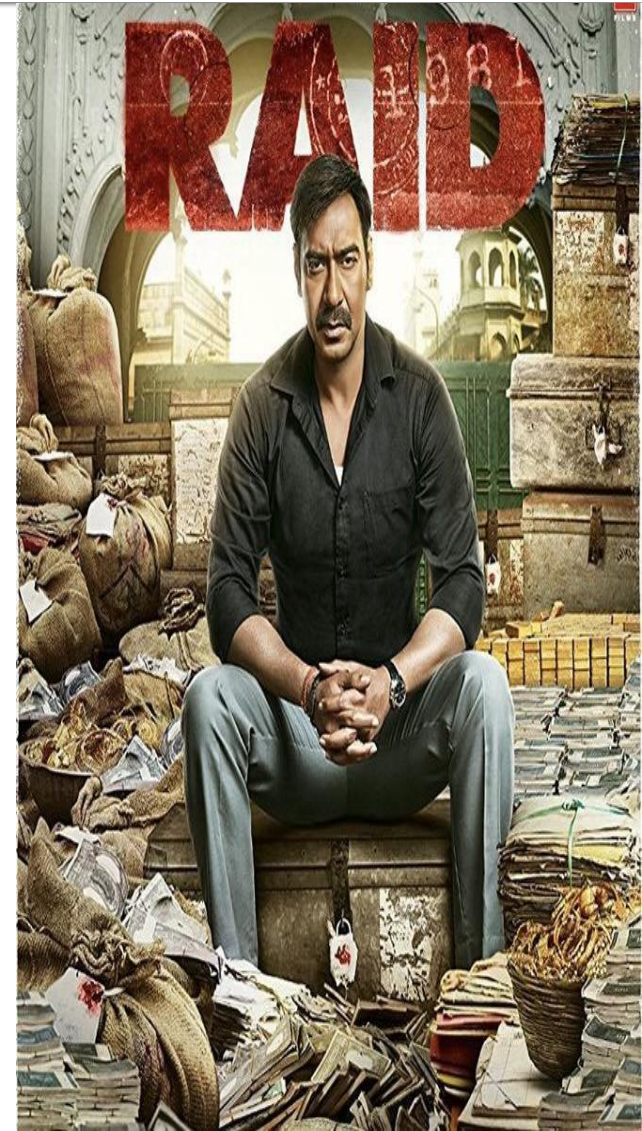


BLOCK ASSESSMENT

- Section 296 of the IT Act, 2025 provides for time limit for completing a block assessment.
- 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.
 - 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.
 - 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 completion of block assessment.
 - Further, the time limit is also extended to 18 months.
 - Amendment effective from 01.04.2026 for search or requisition initiated or made as the case may be on or after 01.04.2026.

BLOCK ASSESSMENT

- Section 295 provides for block assessment of the other person (person not searched) undisclosed income belonging to or pertaining to whom was unearthed in a search.
- The existing scheme of block assessment provided for block period to be same as that of the searched person.
- Where the undisclosed income pertaining to third person relates only to a single tax year, the third person is still required to undergo full block assessment procedure.
 - It is proposed to amend Section 295(2) to limit the block period for third parties (other persons) to only the relevant single tax years where undisclosed income is found.
 - Amendment is applicable for searches initiated after 01.04.2026.



JAO vs FAO

- Jurisdiction of the Jurisdictional Assessing Officer (JAO) to issue 148A notice and consequential order and notice under Section 148 has been a point of contention.
- The Bombay High Court in the case of **Hexaware Technologies limited Vs. ACIT 464 ITR 430** ruled that the JAO has no jurisdiction to issue 148A notice outside the scheme of faceless assessment.
- Similar views have been taken by the Telangana High Court, Punjab & Haryana High Court and Rajasthan High Court and Madras High Court in **TVS Credit Services Limited Vs. DCIT - WP No. 22402 of 2024 – order dated 24.06.2025**.
- However, the Delhi High Court in **T.K.S. Builders Private Limited Vs. ITO 469 ITR 657** has upheld the 148A notices issued by the JAO.
- A big batch of cases is pending before the Supreme Court and one batch was listed for hearing on 17.02.2026.
- Meanwhile Finance Bill 2026 has carried out a retrospective amendment to close this issue.

JAO vs FAO

- Section 147A of the IT Act, 1961 is proposed to be inserted with retrospective effect from 01.04.2021.
- Section 147A - *Notwithstanding anything contained in any judgement, order or decree of any court or in section 151A or in any scheme framed thereunder, for the removal of doubts, it is hereby clarified that the Assessing Officer for the purposes of sections 148 and 148A shall mean and shall always be deemed to have meant to be an Assessing Officer other than the National Faceless Assessment Centre or any assessment unit referred to in sub-section (3) of section 144B.*
 - Press Reports indicate that the SC disposed a batch directing the parties to approach the High Court taking into account the Finance Bill 2006 clarification and has also granted liberty to the unsuccessful party to approach the Supreme Court.
- Section 279(3) has been inserted to the IT Act, 2025 to clarify that the JAO has the jurisdiction issue notice and order under Section 281 and notice under Section 280.
- The amendment shall have effect from 01.04.2026.



RATIONALISING DUE DATE FOR FILING OF RETURNS

- Section 263(1)(c) of IT Act, 2025 amended to extend due date for filing return from 31st July to 31st August
 - assessee having income from PGBP whose accounts are not required to be audited
 - partner of a firm whose accounts are not required to be audited
 - Spouse of such partner if Section 10 applies to spouse
- Similar amendments made to Explanation 2 of Section 139(1) of IT Act, 1961
- Amendments to 2025 Act to take effect from 01.04.2026
- Amendments to 1961 Act to take effect from 01.03.2026

REVISED RETURN

- Section 263(5) of IT Act 2025 deals with revised return
- Amendment to increase the time limit for filing revised return from 9 months to 12 months
- Levy of a fee when revised returns are filed beyond 9 months
- Corresponding amendments made to Section 139(5) and Section 234l of IT Act, 1961
- Amendments to 2025 Act to take effect from 01.04.2026
- Amendments to 1961 Act to take effect from 01.03.2026

UPDATED RETURN



- Section 263(6) of the IT Act, 2025 deals with updated return.
- Amendment proposed to facilitate filing of updated return for a relevant tax year pursuant to a **notice under Section 280** within such period specified in the Notice and the assessee shall be precluded from filing return pursuant to Section 280.
- Section 267 amended to provide that where updated return is filed pursuant to a notice under Section 280 within the period specified in the Notice, the additional tax payable shall be increased by a further sum of 10% of the aggregate of tax and interest payable on account of furnishing of the updated return.
- Where tax if so paid, the income on which such additional income tax is paid shall not be the basis for penalty under Section 239.
- Amendment to allow updated return in cases **where tax payer reduces the amount of loss**
- Amendment effective from 01.04.2026.
- Similar amendments to Income Tax Act with retrospective effect from 01.03.2026.

PROSPECTING CRITICAL MINERALS

- Section 51 of the IT Act, 2025 provides for tax deduction of expenses incurred by an Indian company or resident taxpayers (other than companies) engaged in any operations relating to prospecting or extraction or production of the minerals mentioned in Part A and Part B of the Schedule XII of the Act.
- Deduction is allowed on deferred basis (over a span of 10 years from the year of commercial production of any specified mineral), in respect of expenses incurred wholly and exclusively on operations relating to prospecting or on the development of mine or other natural deposit of specified minerals incurred at any time during the year of commercial production and any one or more of the four years immediately preceding the year of commercial production
- **In order to incentivize the prospecting and exploration of the critical minerals, it is proposed to expand the list of minerals in Schedule XII of the Act to include –**
 - Beryllium bearing minerals.
 - Glauconite.
 - Graphite.
 - Indium bearing minerals.
 - Lithium bearing minerals.
 - Niobium bearing minerals.
 - Potash.
 - Rhenium bearing minerals.
 - Tantalum bearing minerals.

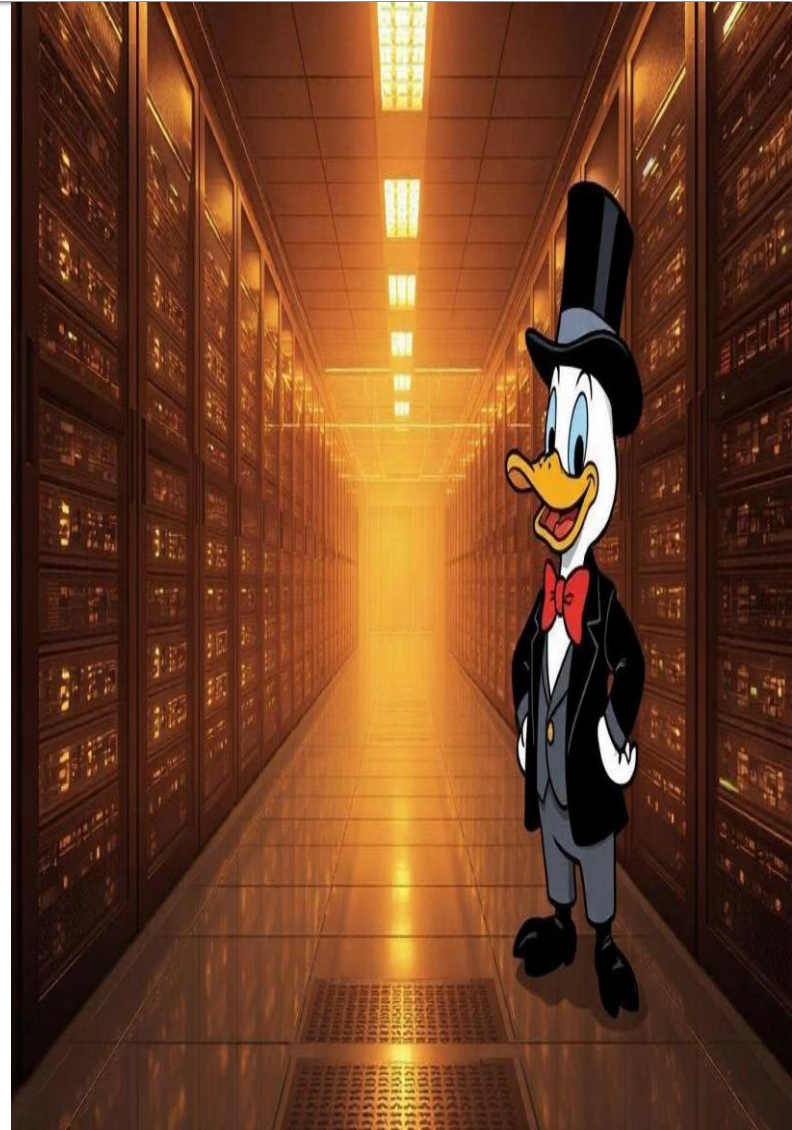
DATA CENTRE SERVICES

- Schedule IV of the IT Act, 2025 specifies certain categories of income that are excluded from the total income of eligible non-resident and foreign company.
- Clause 13C inserted.
- Exemption available upto tax year ending 31st March 2047.

Income Not to be Included in total income	Eligible persons	Conditions
<p>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</p> <p>Specified data Centre – set up under approved scheme of Central Government and owned and operated by an Indian Company.</p>	<p>A foreign company.</p>	<p>Such foreign company is notified by the Central Government in this behalf;</p>
		<p>Such foreign company does not own or operate any of the Physical Infrastructure or any resources of the Specified data Centre.</p>
		<p>All sales by such foreign company to users located in India are made through a reseller entity being an Indian company;</p>
		<p>Such foreign company maintains and furnishes such information in such form and manner, as may be prescribed; and</p>
		<p>Such exemption shall be available up to tax year ending on the 31st March, 2047</p>

DATA CENTRE SERVICES

- **Data Centre** means a dedicated secure space within a building or centralized 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, building, mechanical electrical power equipments, cooling systems, 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 setup under an approved scheme and is notified in this behalf by the Central Government in the MeIT.
 - **Is owned and operated by an Indian Company.**



DATA CENTRE SERVICES

- This is a big ticket amendment and gives tax exemption certainty upto 2047.
- Massive investments have been announced for setting up data centres in India by foreign companies.
- Would benefit data centres in India since even if they give rise to a permanent establishment in India for the Foreign Company, the proposed exemption would ensure that there is no tax.
 - *The Digital Personal Data Protection Act, 2023 has been notified on 17.11.2025 and comes into force over a period of 18 months.*
 - *The emphasis is on protection of digital personal data.*
 - *It remains to be seen as to what would be prescribed by the Income Tax Rules in the context of information to be maintained by the foreign company.*
 - *The DPDP Act does not contemplate data localization. However, powers are available under Section 16 restrict transfer of personal data to notified country or territory.*
 - *Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data and Information) Rules, 2011 provides for transfer of information where it is necessary for the performance of a lawful contract subject to Data Protection in the other country being similar to that in these Rules.*

CAPITAL GOODS, EQUIPMENT, TOOLING

- Schedule IV of the IT Act, 2025
- Clause 13A inserted.

Income Not to be Included in total income	Eligible persons	Conditions
Any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India	A foreign company, who is providing capital goods, equipment or tooling to the contract manufacturer for use in electronic manufacturing in India.	Ownership of such capital goods, equipment or tooling remains with the foreign company;
		such capital goods, equipment or tooling is under the control and direction of the contract manufacturer;
		the contract manufacturer is located in a custom bonded area, that is, a warehouse referred to in section 65 of the Customs Act, 1962 (52 of 1962);
		the contract manufacturer produces electronic goods on behalf of the foreign company for a consideration;
		such exemption shall be available up to the tax year 2030-2031

INDIVIDUAL NON-RESIDENT – CENTRAL GOVT. NOTIFIED SCHEME

- Schedule IV of the IT Act, 2025
- Clause 13B inserted.

Income Not to be Included in total income	Eligible persons	Conditions
Any income which accrues or arises outside India, and is not deemed to accrue or arise in India.	An individual, being a nonresident for a period of five consecutive tax years immediately preceding the tax year during which he visits India for the first time for rendering services in India in connection with any scheme as may be notified by the Central Government	Such individual, during the relevant tax year renders any service in India in connection with any scheme as may be notified by the Central Government;
		Such exemption shall not be available beyond a period of five consecutive tax years commencing from the first tax year during which he visits India in connection with such scheme; and
		Such other conditions, as may be prescribed.

TONNAGE TAX SCHEME

- Chapter XIII-G of the IT Act, 2025 deals with special provisions for shipping companies and tonnage tax scheme was extended to inland vessels.
- Amendments have been made to Section 227, 228, 232, 235.
- Object of amendments is to align the provisions with the Inland Vessels Act, 2021 and Rules thereunder in order to give effect to the tonnage tax scheme extended to inland vessel.



SOVEREIGN GOLD BOND

- Section 70(1)(x) of the IT Act, 2025 provides for capital gains exemption in respect of income arising from Sovereign Gold Bonds issued by RBI under the Sovereign Gold Bonds Schedule, 2015.
- RBI has been issuing such bonds on a recurring basis through multiple series each constituting a separate issuance.
- Proposal to substitute Section 70(1)(x) as under:
 - *By way of redemption of sovereign gold bond issued by the RBI under the Sovereign Gold Bond Scheme, 2015 or any subsequent Sovereign Gold Bond Scheme if held by an individual from the date of original issue till maturity.*
- *Amendment effective from tax year 2026-2027.*
 - *Impact on purchases in the secondary market.*



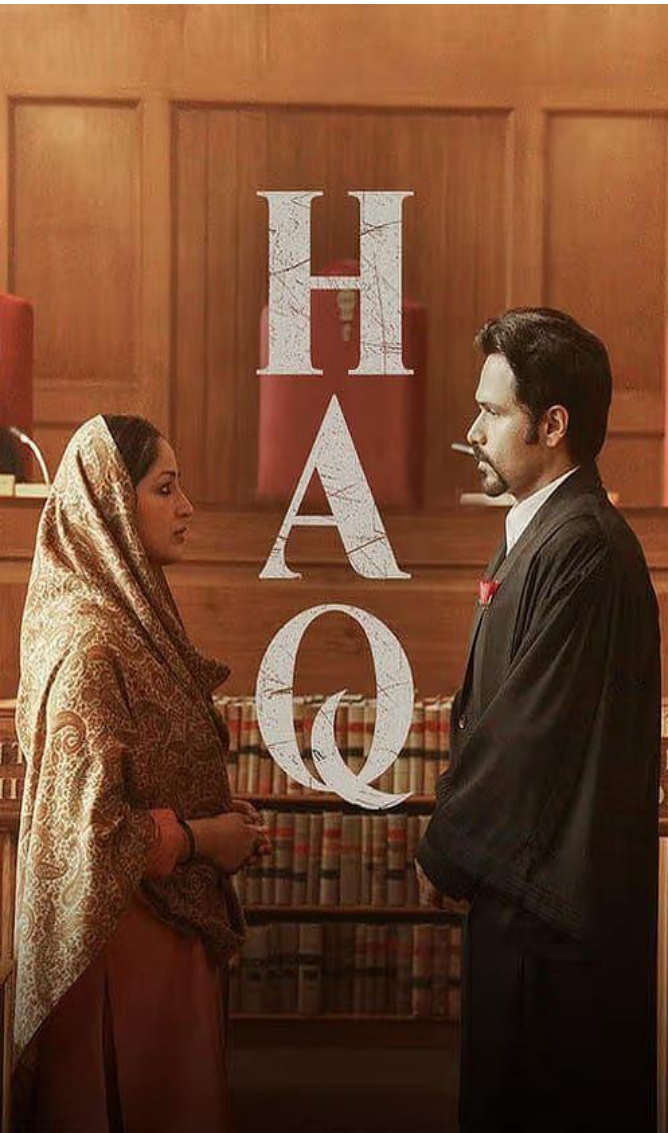
EMPLOYEE CONTRIBUTIONS TO FUNDS

- The Supreme Court in *Checkmate Services P. Ltd. Vs. CIT Tax-I (2022) 448 ITR 518* had held that where employee contributions to PF / ESI are deposited after the statutory due dates, Section 43B relaxation would not apply.
- Section 29(1) of the IT Act, 2025 refers to due date which is identified as the due date under the relevant Act or Rule or Order or Notification.
- Amendment to Section 29(1)(e) to provide that due date for the said clause shall be the due date for filing return under Section 263.
- In effect, decision of the Supreme Court nullified in favour of the assessee.
- Amendment not retrospective but effective only from tax year 2026-2027.

ACCIDENT VICTIMS UNDER MV ACT

- Schedule III of the Income Tax Act 2025 has been amended to include income in the nature of interest awarded to the victims or their legal heirs as exempt.
- Amendment has been proposed to exempt the interest income on compensation awarded to an accident victim under the Motor Vehicles Act, 1988
- Corresponding amendment has been made under Section 393(4) exempting TDS on such income
- Section 393(4) has been amended so that no TDS shall be applicable on such income in the nature of interest.
- These amendments shall take effect from 01.04.2026 and shall be applicable from tax year 2026-27.

LOWER RATE OR NO TDS – ELECTRONIC VERIFICATION



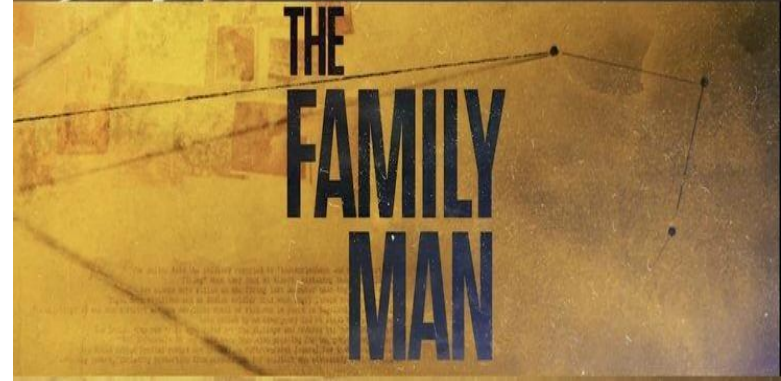
- Section 395 pertains to certificate of TDS and TCS at lower rate or nil rate.
- Amendment to facilitate application electronically before the Income Tax Authority which may
 - issue the certificate subject to conditions as may be prescribed
 - reject the application if the prescribed conditions are not fulfilled or the application is incomplete.
- *Welcome amendment since Section 197 of IT Act has its own challenges.*
- *Amendment is routed under 'ease of living'. Therefore, amendment must be given full effect and the scope should not be whittled down through Rules.*

ENABLING FILING OF DECLARATION BY DEPOSITORY

- Amendments to Section 393(6)
 - Filing of Form 15G or Form 15H to be routed through depositories for investors holding securities or units in the depository and securities are listed on a registered stock exchange in India.
 - The entities holding such investments to file the declarations with the IT authorities on a quarterly basis instead of monthly basis.
 - Amendments to take effect from 01.04.2027.
 - In order to ease compliance burden on investors receiving income in the nature of dividend/interest from securities/or from units of mutual funds it is now 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, the time limit for filing the declaration by the person responsible for paying such income has been changed from monthly to quarterly

SALE OF IMMOVABLE PROPERTY BY NON-RESIDENT - TDS

- Existing provision contemplates buyer to obtain a TAN when the seller of immovable property is a non-resident.
- This created a practical problems since the purchase could be a one-off transaction and buyer would not need TAN.
- Section 397(1)(c) of the Income Tax Act, 2025 is proposed to be amended to exempt resident individual / HUF from obtaining TAN to deduct tax at source when immovable property is sold by NRI
- Amendment effective from 01.10.2026.



TDS ON MANPOWER SUPPLY

- Section 402(47) amended to include 'supply of manpower' under the ambit of 'work' and will now fall under payment to contractors subject to the relevant TDS provision under Section 393(1).
- This amendment shall take effect from 01.04.2026.
 - *Memorandum states that the object of the amendment is to remove ambiguity on the TDS rate.*

RATIONALIZATION OF TCS RATES

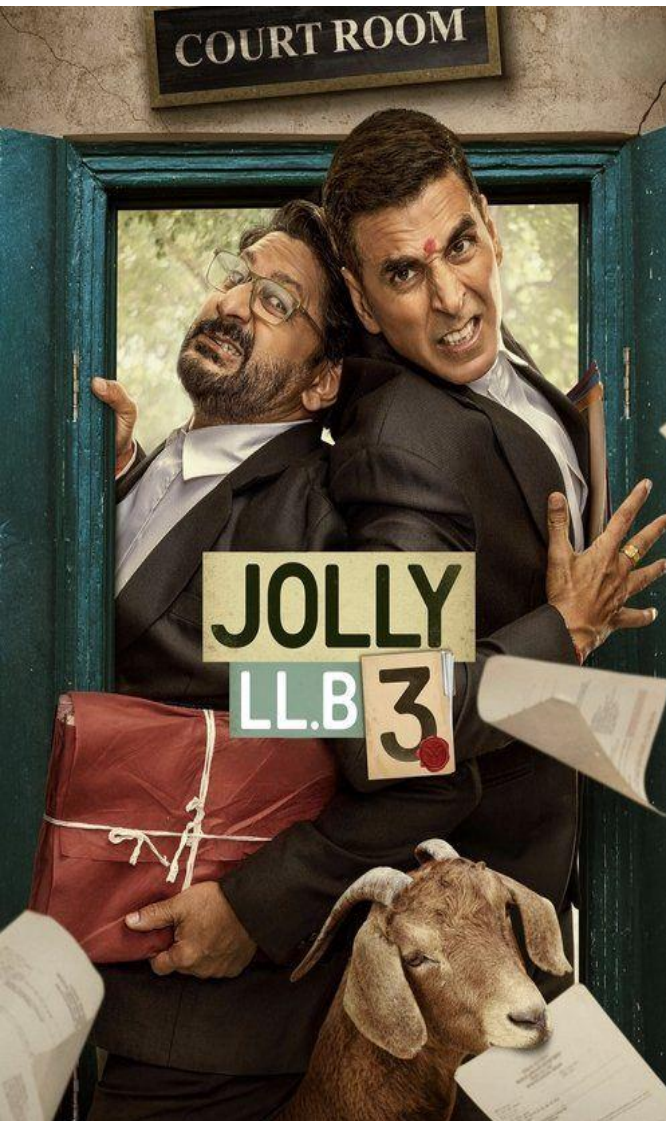


Sl. No.	Nature of receipt	Current Rate	Proposed Rate
1.	Sale of alcoholic liquor for human consumption.	1%	2%
2.	Sale of tendu leaves	5%	2%
3.	Sale of scrap	2%	2%
4.	Sale of minerals, being coal or lignite or iron ore.	1%	2%
5.	Remittance under the liberalized Remittance Scheme of an amount or aggregate of the amounts exceeding ten lakh rupees--	(a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment	(a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.
6.	Sale of "overseas tour programme package" including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	(a) 5% of amount or aggregate of amounts upto ten lakhs rupees; (b) 20% of amount or aggregate of amounts exceeding ten lakhs rupees	2%

DEDUCTION TO NON-LIFE INSURANCE BUSINESS

- In relation to non life insurance business, it is proposed to amend Schedule XIV of the 2025 Act so as to allow for a deduction with respect to expenses which had been disallowed due to non-deduction of TDS or non-payment of deducted TDS in the year in which the payment is made
- Amendment to take effect from 01.04.2026

EXEMPTION OF INCOME UNDER THE RIGHT TO FAIR COMPENSATION AND TRANSPARENCY IN LAND ACQUISITION, REHABILITATION AND RESETTLEMENT ACT, 2013 (RFCTLAAR ACT)



- Capital gains on transfer of agricultural land exempt under Section 11 read with Schedule III of 2025 Act
- Section 96 of RFCTLARR Act provides that income tax shall not be levied on awards or agreements
- CBDT Circular No. 36/2016 clarified that compensations received under RFCTLARR Act is not taxable under 1961 Act.
- Schedule III of 2025 Act amended to resolve ambiguity
 - Exemption on income arising out of any award or agreement made on compulsory acquisition of land under RFCTLARR Act
 - Exemption applicable to acquisitions carried out on or after 01.04.2026
- Amendment to 2025 Act to take effect from 01.04.2026.

EXEMPTION FOR DISABILITY PENSION TO ARMED FORCE PERSONNEL

- Amendment to Schedule III to provide for exemption of disability pension
 - pension includes both the service element and the disability element
 - applies only when the individual has been invalided out of Armed Forces service on account of a bodily disability attributable to or aggravated by such service
 - Exemption not applicable in cases of retirement on superannuation or otherwise
- Exemption will also be available to paramilitary personnel
- Amendments to take effect from 01.04.2026.

FOREIGN ASSETS OF SMALL TAX PAYERS DISCLOSURE SCHEME, 2026

- Finance Bill, 2026 has introduced the Scheme for declaration of foreign assets and foreign-sourced income
 - Time-bound scheme
 - Payment of tax or fee based on the nature and source of acquisition.
 - Grant of limited immunity from penalty and prosecution under the Black Money Act.
 - Amount payable based on
 - undisclosed asset outside India
 - undisclosed foreign income
 - Asset located outside India from income outside India and not declared in the relevant schedule in the return.
 - Asset located outside India from income offered to tax under the IT Act and assets not declared in the return.
- *FAQ states that the scheme applies for undisclosed assets outside India or undisclosed foreign income where the aggregate value does not exceed Rs.1 crore as on 31.03.2026.*



DIVIDEND

- Section 93 of the IT Act, 2025 provides for deduction under income from other sources.
- It is proposed to amend Section 93(2) to provide that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds.
 - Section 57 of the IT Act, 1961 provided for such deduction subject to a ceiling limit.
 - Similar deduction with a ceiling limit was provided in Section 93 of the IT Act, 2025
 - Amendment is being made to remove the deduction w.e.f. 01.04.2026.



SECURITIES TRANSACTION TAX



- Increase in rate of STT.
- 0.1 per cent to 0.15 per cent of the option premium, on sale of an option where the option is exercised
- 0.125 per cent to 0.15 per cent of the intrinsic price
- On sale of a future in securities from 0.02 per cent to 0.05 per cent of the traded price.
- Amendments effective from 1st April 2026.
 - The memorandum states that this will address issue of disproportionate increase in speculation in futures and options trading.

IFSC

- Section 147 provides for deduction of 100% on certain incomes to the units of International Financial Services Centre (IFSC) and Offshore Banking Units (OBU).
- Deduction is available for 10 consecutive years out of 15 years for units in IFSC and 10 consecutive years for OBUs.
- To increase competitiveness of IFSC – It is proposed to increase the period of deduction to 20 consecutive years out of 25 years for units in IFSC and 20 consecutive years for OBUs.
- It is also proposed that the business income of these units from IFSC after the expiry of period of deduction will be taxed at rate of 15% - Section 218.
- Amendments applicable from tax year 2026-2027 and subsequent tax years.

IFSC

- As per Section 2(40)(v) – Dividend does not include any advance or loan between two group entities if –
 - 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 the stock exchange in a country outside India (other than a territory as may be specified by the board).
- It is proposed to amend the said clause to provide that -
 - the other group entity to the transaction must also be located in a country or territory outside India, which is a notified jurisdiction.
 - The parent entity or principal entity of such group must be listed on the stock exchange in a country outside India.
 - The Central Government by notification shall specify the eligible countries and territories.
- It is also proposed to define the term 'Group Entity', 'Parent Entity' or 'Principal Entity'.
- Amendments effective from tax year 2026-2027 and subsequent tax years.

CHARITABLE INSTITUTIONS – NON-PROFIT ORGANIZATION

- Section 351 of the IT Act, 2025 deals with activities which constitute specified violation by a registered non-profit organization (NPO).
- It currently includes violation on account of commercial activities by a registered NPO carrying out *advancement of any other object of general public utility*.
- Such violation was also included in 'other violation' under Section 353.
- The references to the violation are being removed in order align the provisions with the Income Tax Act, 1961.
- Amendments effective from tax year 2026-2027 and subsequent tax years.
 - Amendment in the right direction since commercial activity for an organization registered under general public utility did not mean that the status would be lost.
 - The exemption alone was lost to the extent of the income that was hit by the proviso in the definition of charitable purpose under the IT Act, 1961.
 - The provisions were also explained by the Supreme Court in ***ACIT(Exemptions) Vs. Ahmedabad Urban Development Authority (2022) 449 ITR 1.***

NON-PROFIT ORGANIZATION

- In order to provide for provisions similar to Section 12AC of the IT Act, 1961, Section 354A of the IT Act, 2025 is being inserted.
- Where any registered NPO has merged with any other registered NPO, the provisions of section 352 shall not apply.
 - Where the other registered NPO has same or similar objects and
 - The said merger fulfils prescribed conditions.
- In order to align with the IT Act, 1961, Serial No.8 of Table below Section 352(4) of the IT Act, 2025 is being amended to provide for tax on accreted income where it has merged with
 - Entity other than registered NPO
 - Registered NPO having same or similar object but merger does not fulfil prescribed conditions.
 - Registered NPO does not have same or similar object.
- Amendment to Section 332(1)(f) of the IT Act, 2025 to remove certain funds from the requirement of registration.
- Amendment to Section 349 to facilitate filing of belated return by registered NPO.
- Amendment effective from tax year 2026-2027 onwards.

CO-OPERATIVE SOCIETIES

- Section 149(2)(d) provides for deduction on the income of a cooperative society that is received as interest or dividend from any other co-operative society.
- The dividends received by a cooperative society from a company are taxed in the hands of the cooperative society.
 - It is proposed to allow deduction on dividends received by cooperative societies from other cooperative societies, to the extent such dividends are distributed to its members, in the new tax regime.
 - It is also proposed to allow deduction for dividends received by notified federal cooperatives from companies for 3 years, i.e. till tax year 2028-29 under both the old and new tax regimes.
 - This deduction is proposed to be allowed only to the dividends arising out of investments made by the federal cooperative till 31.01.2026 and which are further distributed by it to its members.
 - Amendment effective from tax year 2026-2027 and subsequent tax years.

CO-OPERATIVE SOCIETIES

- Scope of Section 149(2)(d) widened to include ancillary activities such as supplying cattle feed and cotton seeds.
- Existing definition of cooperative societies is in terms of Cooperative Societies Act, 1912 or under any other law in any State or UT for registration of Cooperative Society.
- Section 2(32) has been amended.
 - Proposal to include cooperative societies registered under Multi-State Cooperative Societies Act, 2002.
 - Amendment effective from 01.04.2026 and applicable to tax year 2026-2027 and subsequent years.

RELAXATION OF CONDITIONS FOR PROSECUTION UNDER THE BLACK MONEY ACT

- The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ('Black Money Act') imposes penal and prosecution measures (under Sections 49 and 50) for wilful non-disclosure of foreign income/assets by residents, including rigorous imprisonment and fines for failing to file returns or disclose such items.
- It is proposed to amend Section 49 and 50 of the Black Money Act to exempt prosecution in cases of minor/inadvertent non-disclosures of foreign assets (excluding immovable property) where the aggregate value is ₹20 lakh or less; this also aligns prosecution with the Act's penalty framework.
- Amendments apply retrospectively from 01.10.2024.

RATIONALIZATION OF PROSECUTION PROCEEDINGS

- **The following principles have been applied in decriminalization of offences:**
 - Rigorous imprisonment → simple imprisonment.
 - Maximum punishment reduced (from 7 years to 2–3 years).
 - Fine-only punishment for minor offences (\leq ₹10 lakh).
 - Graded punishment introduced based on quantum of tax evaded (thresholds: ₹10 lakh, ₹50 lakh).
 - Full decriminalization for certain offences (e.g., failure to credit TDS on lottery/perquisites, failure to produce books).



RATIONALIZATION OF PROSECUTION PROCEEDINGS – 2025 ACT

Section under 2025 Act	Existing Punishment	Proposed Change	Nature of Rationalization
473 - Contravention of order during search	Rigorous imprisonment up to 2 years + fine	Simple imprisonment up to 2 years + fine	Reduced severity
474 - Failure to afford facility for inspection during search	Rigorous imprisonment up to 2 years + fine	Simple imprisonment up to 6 months and/or fine	Reduced severity
475 - Removal/concealment /transfer of property to evade recovery	Rigorous imprisonment up to 2 years + fine	Simple imprisonment up to 2 years + fine	Reduced severity
476 - Failure to credit TDS on lottery, perquisites, VDA, online games	Rigorous imprisonment 3 months–7 years + fine	Decriminalized for lottery/perquisite; graded for online games & VDA	Decriminalization + graded
477 - Failure to credit TCS)	Rigorous imprisonment 3 months–7 years + fine	Graded punishment based on tax amount	Graded punishment
478 - Wilful attempt to evade tax	Rigorous imprisonment 3 months–7 years + fine	Graded punishment based on tax amount	Graded punishment
479 - Failure to furnish return	Rigorous imprisonment 3 months–7 years + fine	Graded punishment based on tax evaded	Graded punishment

RATIONALIZATION OF PROSECUTION PROCEEDINGS – 2025 ACT

Section under 2025 Act	Existing Punishment	Proposed Change	Nature of Rationalization
480 - Failure to furnish return in search cases	Rigorous imprisonment 3 months–7 years + fine	Graded punishment based on tax amount	Graded punishment
481 - Failure to produce books/documents or comply with AO direction	Rigorous imprisonment up to 1 year + fine	Decriminalized for books; simple imprisonment for AO direction	Partial decriminalization
482 - False statement/account	Rigorous imprisonment 3 months–7 years + fine	Graded punishment based on tax impact	Graded punishment
483 - Falsification of books	Rigorous imprisonment 3 months–2 years + fine	Simple imprisonment up to 2 years + fine	Reduced severity
484 - Abetment of false return	Rigorous imprisonment 3 months–7 years + fine	Graded punishment based on tax impact	Graded punishment
485 - Second/subsequent offences	Rigorous imprisonment 6 months–7 years + fine	Simple imprisonment 6 months–3 years + fine	Reduced severity
494 - Disclosure of particulars by public servants	Imprisonment up to 6 months + fine	Simple imprisonment up to 1 month or fine or both	Reduced severity

RATIONALIZATION OF PROSECUTION PROCEEDINGS – 1961 ACT

Section under 1961 Act	Existing Punishment	Proposed Change	Nature of Rationalization
275A – Contravention of order made during search	Rigorous imprisonment up to 2 years + fine	Simple imprisonment up to 2 years + fine	Reduced severity
278A – Punishment for second and subsequent offences	Rigorous imprisonment not less than 6 months up to 7 years + fine	Simple imprisonment not less than 6 months up to 3 years + fine	Reduced severity
280 – Disclosure of particulars by public servants	Imprisonment up to 6 months + Fine	Simple imprisonment up to 1 month or Fine or both	Reduced severity

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.
- Penalty proceedings are initiated separately.
- Section 220 requires payment of any demand within 30 days of service of demand notice interest becomes payable on failure to pay the demand.
- Section 245MA 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 existing scheme results in multiplicity of proceedings.
- Proposed amendment:
 - Amendment to Section 274 – to provide that penalty under Section 270A shall constitute as part of the assessment or reassessment order.
 - Amendment to Section 220 – Interest not to be charged on the penalty demand upto date of passing order in first appeals.
- The amendments to become effective from 01.03.2026. The amendments to Section 274 will become applicable in respect of assessment orders or reassessment orders passed on or after 01.04.2027 in respect of 2026-27 or any earlier assessment year.
- Similar amendments are made in Section 411(equivalent of Section 220) and 439(equivalent of 274) of the Income Tax Act, 2025.

INCREASE IN MAXIMUM AMOUNT OF PENALTY IN SECTION 466 OF THE ACT

- Section 254 of the Income-tax Act, 2025 (hereinafter referred as 'the Act') provides the power to the income-tax authorities to collect information.
- Section 466 of the Act provides for a penalty if any person fails to comply with the provision of section 254, i.e. power to collect information, and does not furnish the requisite information to the authorized income-tax authorities.
- Maximum penalty imposable is Rs. 1000/-.
- Maximum amount of penalty is proposed to be increased to Rs. 25,000 from existing Rs. 1,000

EXPANDING THE SCOPE OF IMMUNITY FROM IMPOSITION OF PENALTY OR PROSECUTION UNDER SECTION 270AA OF THE 1961 ACT

- Section 270AA of the Act, provides, inter-alia, procedure of granting immunity by the Assessing Officer from imposition of penalty or prosecution if –
 - the tax and interest payable as per Assessment order, has been paid within the period specified in notice of demand;
 - no appeal against the such assessment order has been filed.
- Presently, immunity under section 270AA can only be granted in the cases of underreporting of income and not in the case of under-reporting of income in consequence of misreporting.
- It is proposed to amend Section 270AA to include within its scope the power to grant immunity in cases of under-reporting of income as a consequence of misreporting also – subject to payment of an additional income-tax to the extent of 100% of the amount of tax payable on such income in lieu of the penalty.
- Immunity cannot be granted if the prosecution has already been initiated
- The amendment will take effect from 01.03.2026 for AY 2026-27 and earlier assessment years.

EXPANDING THE SCOPE OF IMMUNITY FROM PENALTY OR PROSECUTION UNDER SECTION 440 OF THE 2015 ACT

- Section 440 of the Act, provides, inter-alia, procedure of granting immunity by the Assessing Officer from imposition of penalty or prosecution if –
 - the tax and interest payable as per Assessment order, has been paid within the period specified in notice of demand;
 - no appeal against the such assessment order has been filed.
- Presently, immunity under section 440 can only be granted in the cases of underreporting of income and not in the case of under-reporting of income in consequence of misreporting.
- Section 443 provided for a separate penalty for income determined under Section 102 to 106 (unexplained credits, unexplained investments, etc.).
- It is proposed to amend Section 440 to include within its scope the power to grant immunity in cases of under-reporting of income as a consequence of misreporting also – subject to payment of an additional income-tax to the extent of 100% of the amount of tax payable on such income in lieu of the penalty.
- It is also proposed to omit Section 443 and penalty is proposed to be levied under Section 439, therefore the scope of Section 440 to grant immunity is extended to these cases as well - subject to payment of an additional income-tax to the extent of 120% of the amount of tax payable on such income in lieu of the penalty.
- Immunity cannot be granted if the prosecution has already been initiated
- The amendment will take effect from 01.03.2026 for AY 2026-27 and earlier assessment years.

RATIONALISATION OF TAX RATE UNDER SECTION 195 AND PENALTY UNDER SECTION 443 IN RESPECT OF CERTAIN INCOME – 2025 ACT

- Section 195 provides for tax on income referred to in section 102 to 106 (unexplained credits, unexplained investments, etc.) - the income-tax calculated on such income will be charged at the rate of 60%.
- Section 443 provides that, penalty amounting to 10% of the tax payable under section 195 if income referred to in Section 102 to 106 is included in total income.
- **It is proposed to amend Section 195 to bring down the tax rate to 30%.**
- The penalty under 443 is omitted and the penalty for such cases is subsumed into Section 439(11) – cases involving under-reporting of income as a consequence of mis-reporting. The penalty is 200% of the tax payable on under-reported income.

RATIONALISATION OF PENALTIES INTO FEE – 2025 ACT

<p>Section 446 - Penalty for failure to get accounts audited.</p>	<p>Proposed to be Converted to</p>	<p>Section 428(c) – Fee – Graded fee of Rs. 75,000 and 1,50,000 depending upon period of delay.</p>
<p>Section 447 - Penalty for failure to furnish report under section 172 (report from an accountant to be furnished by persons entering into international transaction or specified domestic transactions).</p>		<p>Section 428(4) – Fee - Graded fee of Rs. 50,000 and 1,00,000 depending upon the period of delay.</p>
<p>Section 454 - Penalty for failure to furnish statement of financial transactions or reportable account.</p>		<p>Section 427(3) – Fee - a sum of Rs.200 for every day for which such failure continues and such fee shall not exceed a sum of Rs.1,00,000.</p>
<p>With the objective to convert penalties for technical delays into mandatory fee as fee reduces litigation for technical faults.</p>		

The existing Section 446 is omitted and new Section 446 is introduced which levies penalty for failure to furnish information or for furnishing inaccurate information on transactions of crypto asset – Rs. 200 for every day for which such failure continues.

MISCELLANEOUS

- Rationalization of Schedule XI of the IT Act, 2025 relating to Provident Funds.
- Amendment to Note 1(g) of Schedule VI of the IT Act, 2025 to align the definition of specified funds under Section 10(4D) of the IT Act, 1961.
- Amendment to repeal and saving clause in Section 536(2)(h) of the IT Act, 2025 to clarify that where any sum has been allowed as deduction or has not been included in the total income under the repealed IT Act, 1961, such sum will be deemed to be income under IT Act, 2025 if even without violation of any condition, it was to be included in the total income under the IT Act, 1961 had it not been repealed.
- Amendment to Section 400(2) to provide that Guidelines issues to remove difficulties in giving effect to TDS/TCS Chapter shall be binding on income tax authorities and on the person liable to deduct or collect tax
- Section 446 of the IT Act amended to provide penalty for non-furnishing of statement or furnishing inaccurate information in a statement on transaction of crypto assets.
- Corrective amendments
 - Section 66(33) – Commodity Derivative
 - Section 402(27) – Authorised Person
 - Section 99 – Referencing Error
 - Section 393(1) – Referencing Error
 - Section 22(2) – Align with Section 24 of the IT Act, 1961
 - Section 262(10)(c) – Enable CBDT to make rules for quoting PAN
 - Section 393(4) – Align with IT Act, 1961 – Cooperative Society engaged in banking.

THANK YOU

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