

Highlights of the Finance Bill 2026



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Finance Minister Nirmala Sitharaman presented the Union Budget 2026 on February 1, 2026. The Finance Bill 2026 dispelled the hearsay by confirming that the Income Tax Act 2025 will take effect from April 1, 2026. The bill decriminalises certain offences by reducing penalties or replacing them with fees. While income tax slabs remain unchanged, the bill offers relief to individual taxpayers by lowering TCS on overseas travel and remittances to 2% and by exempting interest from motor accident claims. These measures, along with an extended period for revising returns and a disclosure scheme for foreign assets, indicate a move toward a more “trust-based” relationship between the state and its citizens.

In the corporate tax sector, the bill proposes reducing the MAT rate to 14% without any MAT credit claim, expanding the “Safe Harbour” threshold for IT firms, and introducing a tax holiday scheme for cloud computing. These measures aim to reduce litigation and attract high-tech investment. However, the government has also taken a firm stance on speculative trading by increasing the Securities Transaction Tax (STT) on futures and options. Additionally, treating share buybacks as Capital Gains ensures that corporate distributions are taxed more fairly. Overall, the Finance Bill 2026 emphasises administrative ease and sector-specific growth rather than broad-based tax reforms.

The key changes proposed in the Finance Bill 2026 related to income tax, GST, customs, and corporate laws are outlined below.

Income Tax Act (‘ITA’)



1. Tax Rates

1.1 Personal Tax Rates

No changes have been proposed to the tax rates under the old or new tax regime, or to the rates of surcharge and education cess. The tax rates and slabs under the new tax regime of Section 202 of the ITA 2025 (corresponding to Section 115BAC of the ITA 1961) shall be as follows:

Total Income	Tax Rate for the Tax Year 2026-27
Up to Rs. 4,00,000	Nil
From Rs. 4,00,001 to Rs. 8,00,000	5%
From Rs. 8,00,001 to Rs. 12,00,000	10%
From Rs. 12,00,001 to Rs. 16,00,000	15%
From Rs. 16,00,001 to Rs. 20,00,000	20%
From Rs. 20,00,001 to Rs. 24,00,000	25%
Above Rs. 24,00,000	30%

1.2 Reduction in Tax Rate on Unexplained Income

[Applicable from Tax Year 2026-27]

Section 195 of the ITA 2025 [corresponding to Section 115BBE of the ITA 1961] provides for taxation of income referred to in Sections 102 to 106 of the ITA 2025 [corresponding to Sections 68 to 69D of the ITA 1961] relating to unexplained credits, investments, assets, expenditure, and certain borrowings or repayments. Currently, such income is taxed at 60%. It is proposed to reduce the tax rate under Section 195 from 60% to 30%. The amendment reduces the effective tax rate (after the 25% surcharge and 4% cess) on undisclosed incomes from 78% to 39%.

Further, Section 443 of the ITA 2025 [corresponding to Section 271AAC of the ITA 1961] currently provides for a separate penalty equal to 10% of the tax payable under Section 195(1)(i) where the income determined for any tax year includes income referred to in Sections 102 to 106. It is proposed to omit this provision and to align the penalty applicable to such income with the framework for under-reporting of income in consequence of misreporting under Section 439(11) of the ITA 2025 [corresponding to Section 270A(g) of the ITA 1961].

1.3 Rationalisation of Minimum Alternate Tax (MAT) Provisions

[Applicable from Tax Year 2026-27]

Section 206 of the ITA 2025 (corresponding to Section 115JB of the ITA 1961) provides for the levy of the Minimum Alternate Tax (MAT) on companies, under which tax is levied on book profits at 15%. When the tax payable under normal provisions is lower than the MAT, the company must pay tax in accordance with the MAT provisions. The excess MAT paid over

normal tax can be carried forward as MAT credit, which is valid for up to 15 years and can be used to offset future taxes when normal tax exceeds MAT. Currently, the MAT framework operates only under the old tax regime.

The Finance Bill 2026 proposes a major change to the MAT mechanism. It suggests the following:

- (a) MAT paid under the old tax regime will be treated as final tax, with no new MAT credit allowed. Accordingly, Sections 206(1)(m) to (p) of the ITA 2025 (corresponding to Section 115JAA(2A) to (6) of the ITA 1961) are proposed to be omitted.
- (b) To compensate, the MAT rate is proposed to be reduced from 15% to 14% of book profits.
- (c) The use of existing MAT credits is proposed only under the new tax regime for domestic companies in Sections 200 and 201 of the ITA 2025 (Sections 115BAA and 115BAB of the ITA 1961). Further, such a set-off will be limited to 25% of the tax liability. To give effect to this proposal, a new Section 206(3) is proposed to be inserted.
- (d) For foreign companies, set-off will be permitted only to the extent that normal tax exceeds MAT in the relevant year. To give effect to this proposal, a new Section 206(4) is proposed to be inserted.
- (e) The remaining credit will be carried forward to the next tax year. This carry forward, or set-off of the tax credit, will not be allowed beyond the 15th tax year following the year in which the tax credit first became allowable under Section 115JAA of the ITA 1961.

Furthermore, to operationalise the revised MAT credit framework, the following consequential changes are also proposed under other Sections of the Income-tax Act, 2025:

- (a) Where, as a result of furnishing an updated return, the MAT credit available under Section 206(3) or Section 206(4) is reduced for any subsequent year, the taxpayer shall be required to file updated returns for each such subsequent year. This is provided by proposing to amend Section 263(6)(e) of the ITA 2025 (corresponding to Section 139(8A) of the ITA 1961).
- (b) MAT credit allowable under Section 206(3) or Section 206(4) shall be reduced while computing:
 - Self-assessment tax,
 - Interest for late filing of return or default in furnishing return,
 - Interest for default or deferment in payment of advance tax, and
 - Tax and interest payable on filing of the updated return.

These changes are proposed through consequential amendments to Sections 266, 423, 424, 425 and 267 of the ITA 2025 (corresponding to Sections 140A, 234A, 234B, 234C and 140B of the ITA 1961).

These amendments aim to facilitate a transition from the old tax regime to the new by gradually phasing out the MAT credit system. Treating MAT as the final tax under the old regime simplifies compliance and reduces the accumulation of long-term credits. Simultaneously, a

limited set-off under the new regime offers transitional relief to companies carrying forward MAT credits.

1.4 MAT Provisions Do Not Apply to All Presumptive Schemes Available to Non-residents *[Applicable from Tax Year 2026–27]*

Section 206 of the ITA 2025 [corresponding to Section 115JB of the ITA 1961] provides that the provisions relating to Minimum Alternate Tax (MAT) do not apply to certain foreign companies. Additionally, income of non-residents from specific businesses opting for presumptive taxation under Section 61 of the ITA 2025 [corresponding to Section 44B, 44BB, 44BBA, and 44BBB of the ITA 1961] is excluded from the MAT framework. However, not all businesses under the presumptive taxation regime currently qualify for such exclusion.

To ensure uniform treatment across all specified businesses of non-residents taxed on a presumptive basis, it is proposed to extend the MAT exemption to two additional categories that are also covered under Section 61 of ITA 2025 [corresponding to Sections 44BBC and 44BBD of the ITA 1961], which are as follows:

- (a) A presumptive scheme for the operation of cruise ships, and
- (b) A presumptive scheme for providing services or technology to set up electronics manufacturing facilities in India.

1.5 Increase in Securities Transaction Tax (STT) Rates *[Effective from 1 April 2026]*

Under the existing framework of the ITA 2025, read with the Securities Transaction Tax regime introduced by the Finance (No. 2) Act, 2004, STT is levied on transactions in specified securities carried out through recognised stock exchanges. The Finance Bill, 2026, proposes to revise the STT rates applicable to certain derivatives transactions, namely options and futures in securities.

Instrument	Transaction Type	Transaction Basis	Existing STT Rate	Revised STT Rate	Change
Options in Securities	Sale of Option	Option Premium	0.100%	0.150%	50.000%
Options in Securities	Sale of Option Where Option is Exercised	Intrinsic Price	0.125%	0.150%	20.000%
Futures in Securities	Sale of Futures	Traded Price	0.020%	0.050%	150.000%

The revised rates shall apply to transactions entered into on or after 1 April 2026.

The increase in the STT on derivative transactions is part of a coordinated fiscal crackdown that reinforces SEBI's measures against excessive retail speculation in the F&O market. This dual approach of higher transaction costs combined with SEBI's actions (increased contract sizes, stricter position limits, enhanced margins, and weekly expiry restrictions) aims to curb the disproportionate increase in speculation by making high-frequency trading economically

unviable for retail participants who have driven Indian index options turnover to unprecedented global levels.

2. Business Income

2.1 Deduction for Contribution to the Employees' Welfare Fund to Be Allowed if Paid by the Due Date of Filing the Return of Income

[Applicable from Tax Year 2026-27]

Under the existing provisions of Section 29(1)(e) of the ITA 2025 (corresponding to Section 36(1)(va) of the ITA 1961), employees' contribution to any provident fund or superannuation fund or ESI or any other welfare fund received by an employer is allowable as a deduction only if it is deposited in the relevant fund within the due date prescribed under the respective laws of the relevant fund. This provision has been the subject of prolonged litigation over whether the deduction can be claimed under Section 37 of the ITA 2025 (corresponding to Section 43B of the Income-tax Act, 1961) on an actual payment basis up to the due date for filing the return of income. Although amendments had earlier been introduced under Section 36(1)(va) of the ITA 1961 to provide that Section 43B shall not apply to employees' contributions, divergent judicial views continued to exist on the allowability of deductions up to the return-filing due date.

To conclusively settle this controversy, it is proposed to amend Section 29(1)(e) itself to provide that the due date for deposit of employees' contribution shall be the due date for filing the return of income under Section 263(1) of the ITA 2025 (corresponding to Section 139(1) of the ITA 1961). In other words, the Finance Bill 2026 proposes allowing deductions for employees' contributions deposited up to the return-filing due date.

2.2 Expenditure Disallowed on Account of Non-Deduction or Non-Deposit of TDS Can Be Claimed by Non-Life Insurance Companies When TDS Is Subsequently Paid

[Applicable from Tax Year 2026-27]

Under the existing provisions of Part B of Schedule XIV of the ITA 2025 (corresponding to Rule 5 of the First Schedule to the ITA 1961), profits and gains of insurance business (other than life insurance) are computed by making specific adjustments to the profit as disclosed in the annual accounts. Paragraph 4(1)(a) of Schedule XIV requires the addition of expenditure which is not allowable under Sections 28 to 54 of the ITA 2025 (corresponding to Sections 30 to 43B of the ITA 1961). While Section 35(b)(i) and (ii) of the ITA 2025 (corresponding to Section 40(a)(ia) and (i) of the ITA 1961) provide that expenditure disallowed due to non-deduction or non-deposit of TDS shall be allowed as a deduction in the year in which such TDS is subsequently deducted and paid, Schedule XIV did not contain a corresponding provision to allow such deduction in the case of non-life insurance businesses.

This created uncertainty about the allowability of such expenditure for non-life insurance companies, even when tax is deducted and paid in a subsequent year. To address this anomaly, it is proposed to amend Schedule XIV to expressly allow deduction of expenditure disallowed on account of non-deduction or delayed payment of TDS in the year in which such tax is subsequently deducted and paid, in line with the general provisions.

2.3 Extension of Deduction for Expenditure on Prospecting and Exploration of Critical Minerals

[Applicable from Tax Year 2026–27]

Section 51 of the ITA 2025 [corresponding to Section 35E of the ITA 1961] permits the deduction of specified expenditure incurred by Indian companies and resident taxpayers (other than companies) engaged in activities related to the prospecting, extraction, or production of minerals listed in Parts A and B of Schedule XII of the ITA 2025 [corresponding to Schedule VII of the ITA 1961]. Such expenditure is allowed as a deduction on a deferred basis over ten years, starting from the year of commercial production, for costs incurred wholly and exclusively for prospecting or developing a mine or other natural deposit during that year and up to four years prior to it.

To promote exploration and prospecting of critical minerals, it is proposed to expand the list of minerals in Schedule XII so that the benefit of deduction under Section 51 applies to expenses related to these critical minerals. Accordingly, Schedule XII of the ITA 2025 is proposed to be amended.

2.4 Extension of the Tonnage Tax Scheme to Inland Vessels

[Applicable from Tax Year 2026-27]

Chapter XIII-G of the ITA 2025 (corresponding to Chapter XII-G of the ITA 1961) contains special provisions for taxing the income of shipping companies under the tonnage tax scheme, which offers a simplified, presumptive method of taxation instead of the normal income computation. Initially, this scheme applied only to ocean-going ships and vessels. However, the Finance Act, 2025, extended the scheme to inland vessels registered under the Inland Vessels Act, 2021, to promote inland water transport and provide tax parity with the maritime shipping sector.

After extending the tonnage tax scheme to inland vessels, it was observed that certain modifications are necessary to the provisions of the said Chapter to align them with the Inland Vessels Act, 2021, and the rules made thereunder, to implement the tonnage tax scheme extended to inland vessels. It is proposed to make the following amendments:

- (a) Section 227 of the ITA 2025 [corresponding to Section 115VG of the ITA 1961] is proposed to be amended to replace the term "certificate" with "valid certificate" for determining tonnage income.
- (b) Section 227(g)(b)(iii) of the ITA 2025 [corresponding to Section 115VX of the ITA 1961] is proposed to be amended to replace the word "certificate" with "certificate of registration" issued under the Inland Vessels Act, 2021.
- (c) Section 228(3)(b)(ii)(A) of the ITA 2025 [corresponding to Section 115V-I of the ITA 1961] is proposed to be amended to include on-board and on-shore activities of inland vessels within the core activities of a tonnage company.
- (d) Section 232(12) of the ITA 2025 [corresponding to Section 115VU(1) of the ITA 1961] is proposed to be amended to include adherence to training guidelines for inland vessels issued by the Inland Waterways Authority of India and notified by the Central Government.

- (e) Section 232(13) of the ITA 2025 [corresponding to Section 115VU(2) of the ITA 1961] is proposed to be amended to require the submission of the training compliance certificate from the appropriate designated authority, including the authority for inland vessels.
- (f) Section 232(17) of the ITA 2025 [corresponding to Section 115VV(3) of the ITA 1961] is proposed to be amended to include consultation with the Inland Waterways Authority of India for calculating the average net tonnage of inland vessels.
- (g) Section 235 of the ITA 2025 [corresponding to Section 115V of the ITA 1961] is proposed to be amended to include the definition of "Inland Waterways Authority of India" for Chapter XIII-G.

2.5 Rationalisation of the Definition of "Eligible Assessee" Under Section 58(11)

[Applicable from Tax Year 2026-27]

Section 58(11)(a) of the ITA 2025 (corresponding to *Explanation (a)* to Section 44AD of ITA 1961) defines the term "eligible assessee" as a resident individual, HUF, or firm (excluding LLP) that has not claimed any deduction under Section 144 of the ITA 2025 (corresponding to Section 10AA of ITA 1961) and has also not claimed any deduction under Chapter VIII-C of the ITA 2025 (corresponding to Chapter VIA-C of the ITA 1961) for the relevant tax year. This definition aims to ensure that only taxpayers who do not claim specific profit-related or incentive deductions are considered eligible assessees.

Under the ITA 2025, Section 144 has been incorporated into Chapter VIII-C. Consequently, a separate reference to section 144 in the definition of "eligible assessee" creates duplication and serves no separate purpose. To prevent this overlap and simplify the provision, the Finance Bill, 2026 proposes removing the reference to Section 144 in section 58(11)(a).

3. Capital Gains

3.1 Buy-Back Taxation Shifted to Capital Gains Regime

[Applicable from Tax Year 2026-27]

Under the existing framework of the ITA 2025, consideration received by a shareholder on buy-back of shares or other specified securities by a company is treated as dividend income under section 2(40)(f) of the ITA 2025 [corresponding to Section 2(22)(f) of the 1961 Act]. At the same time, Section 69 of the ITA 2025 [corresponding to Section 46A of the 1961 Act] recognises the cost of acquisition of such extinguished shares separately as a capital loss. This created an artificial bifurcation where the receipt was taxed as a dividend while the corresponding cost resulted in a capital loss. This position is similar to the regime first introduced in the ITA 1961 w.e.f. 01-10-2024 by virtue of section 2(22)(f) read with section 46A, where the buy-back consideration was treated as deemed dividend, and the capital gains computation mechanism effectively resulted in a nil consideration, thereby generating a capital loss.

The Finance Bill, 2026, proposes to rationalise this anomaly by providing that consideration received on buy-back shall no longer be treated as a dividend but shall be chargeable to tax under the head "Capital gains". This is achieved by omitting Section 2(40)(f) and substituting the

sub-sections (2) and (3) of Section 69 of the ITA 2025. Further, recognising the distinct position of promoters in buy-back decisions, the law introduces an additional tax in such cases. As a result, promoters will face an effective tax rate of 30%, and promoter companies an effective tax rate of 22%, on gains arising from the buy-back.

Consequential amendment has also been proposed to Section 7 of the ITA 2025 [corresponding to Section 7 of the ITA 1961]

3.2 Exemption for Sovereign Gold Bonds to Be Allowed Only to Original Holders if Held Till Maturity

[Applicable from Tax Year 2026-27]

The Sovereign Gold Bond (SGB) Scheme is an investment scheme that offers investors an alternative to holding gold in physical form. There are several benefits of investing in SGBs. An individual is not liable to pay capital gain tax on the redemption of SGBs. Section 70(1)(x) of the ITA 2025 [corresponding to Section 47(viic) of the ITA 1961] provides that any transfer of Sovereign Gold Bond issued by the RBI under the Sovereign Gold Bond Scheme, 2015, by way of redemption, by an assessee being an individual, shall not be treated as a transfer for the purpose of capital gain.

Section 70(1)(x) has been proposed to be substituted to provide that the capital gains exemption shall be available only where a Sovereign Gold Bond, issued under the 2015 Scheme or any subsequent scheme, is subscribed to by an individual at the time of original issue and held continuously by such until maturity. The amendment achieves two things. First, it removes any reference to a specific year in the scheme and extends the benefit uniformly to all Sovereign Gold Bonds issued by the RBI. Second, it replaces the earlier exemption for "redemption" with a stricter requirement of continuous holding from the original issue date until maturity.

Under the earlier wording, a person who acquired SGBs in the secondary market and later redeemed them could also claim the exemption. Under the amended provision, the exemption is available only to the original subscriber who has held the bond from the date of issue till maturity. This significantly narrows the scope of the exemption and changes the tax outcome for secondary market investors and cases of premature redemption. Capital gains arising in such cases will now be taxable. The taxability of Sovereign Gold Bonds redeemed on or after 01-04-2026 shall be as follows:

Conditions	Taxability
Purchased at the time of original issue and held continuously till maturity	Exempt
Not purchased at the time of original issue but held till maturity	Taxable
Purchased at the time of original issue but not held till maturity	Taxable
Neither purchased at the time of original issue nor held till maturity	Taxable

4. Other Sources

4.1 No Deduction for Interest Against Dividend and Mutual Fund Income

[Applicable from Tax Year 2025-26]

Section 93 of the ITA 2025 [corresponding to Section 57 of the ITA 1961] provides for deductions from income chargeable under the head "Income from other sources". Section 93(2) of the ITA 2025 [corresponding to the *first proviso* to Section 57 of the ITA 1961] allows a shareholder to claim a deduction for the interest expenditure from dividend income, subject to a limit of 20% of total dividend income. No further deduction is allowed for any other expenses, including commission or remuneration paid to a banker or any other person for the purpose of realising such dividend.

Section 93(2) is proposed to be substituted to provide that no deduction (including interest) shall be allowed in respect of any dividend income or income from units of mutual funds or specified UTI units.

4.2 Rationalisation of Certain Terms for Treasury Centres in IFSC

[Applicable from Tax Year 2026-27]

Section 2(40) of the ITA 2025 (corresponding to Section 2(22) of the ITA 1961) defines the term "dividend" and excludes certain transactions from its scope. Under sub-clause (v), any advance or loan between two group entities is not treated as a dividend when one of the entities is a "Finance company" or a "Finance unit", and the parent or principal entity of the group is listed on a stock exchange outside India (other than countries specified by the Board). This exclusion aims to facilitate genuine intra-group financing arrangements without triggering deemed dividend taxation.

To rationalise and tighten this exclusion, it is proposed to amend sub-clause (v) to require that the other group entity involved in the transaction be located in a notified jurisdiction outside India. Additionally, the parent or principal entity of the group must be listed on a stock exchange in a country or territory outside India, and the Central Government will specify that country or territory through a notification in the Official Gazette.

For clarity and consistent interpretation, the proposal also introduces specific definitions of "group entity" and "parent entity / principal entity" by aligning them with the International Financial Services Centres Authority (Payment Services) Regulations, 2024. By clearly defining control through voting power or board control, the amendment narrows the scope of the exclusion to authentic offshore group structures.

5. Registered NPO

5.1 Merger of Registered NPOs Will Not Trigger Accreted Tax

[Applicable from Tax Year 2026-27]

A new Section 354A is proposed to be inserted in ITA 2025, which provides that tax on accreted income under section 352 shall not apply where a registered NPO merges with

another registered NPO having the same or similar objects, subject to prescribed conditions. The amendment provides the statutory protection similar to Section 12AC of the ITA 1961. This removes litigation risk in genuine NPO mergers.

5.2 No Cancellation of Registration of an NPO Merely on the Grounds of Carrying on Commercial Activity in the Advancement of Any Other Object of General Public Utility

[Applicable from Tax year 2026-27]

Section 346 of the ITA 2025 prescribes specific restrictions on commercial activities undertaken by registered NPOs in the "advancement of any other object of general public utility" (GPU) category. Commercial activity is permitted only where all the following conditions are cumulatively satisfied:

- (a) The activity is undertaken in the course of the actual carrying out of the GPU object,
- (b) Aggregate receipts from such activity do not exceed 20% of the total receipts of the NPO for the relevant tax year, and
- (c) Separate books of account are maintained in respect of such activity.

This provision substantially corresponds to the *proviso* to Section 2(15) of the ITA 1961.

A breach of any of the conditions under Section 346, such as exceeding the 20% threshold, undertaking unrelated commercial activity, or failure to maintain separate books, attracts dual statutory consequences:

- (a) Section 351(1)(b) expressly includes violation of Section 346 within the scope of "specified violations". This empowers the tax authorities to cancel the NPO's registration and may also result in tax on accreted income under Section 352, subject to the prescribed conditions.
- (b) Section 353 treats violation of Section 346 as an "other violation", triggering a special computation mechanism under which the benefit of the charitable regime is denied for that tax year and income is taxed on a restricted basis.

The Finance Bill 2026 proposes to remove commercial activity by NPOs under the "general public utility" category from the scope of "specified violation" under Section 351. Earlier, such a breach could have led to cancellation of registration and levy of the exit tax. The amendment restores the position under the ITA 1961, where such violations result only in a year-specific denial of exemption. It shall now be treated merely as an "other violation" under Section 353, triggering special computation for that tax year without affecting the registration of the NPO.

5.3 Relief to Certain Funds from NPO Registration

[Applicable from Tax Year 2026-27]

Registration under section 332 of the ITA 2025 is the key condition for an entity to claim exemption as a registered NPO. Section 332(1)(f) requires persons referred to in specified entries of Schedule III and Schedule VII to obtain such registration in order to claim exemption. Schedule VII, *read with* Section 11, already provides unconditional exemption to certain government-backed and statutory funds, subject to prescribed conditions. However, the

drafting of section 332(1)(f) had the unintended effect of requiring these funds to be registered under the NPO framework.

The Finance Bill, 2026 proposes to amend Section 332(1)(f) to restrict reference only to Schedule VII (Sl. Nos. 17 to 19), thereby Sl. Nos. 10 to 16 are excluded from the scope of compulsory registration. Consequently, the following funds will no longer be required to obtain NPO registration to claim exemption:

- (a) PM National Relief Fund or PM Citizen Assistance and Relief in Emergency Situations Fund (PM CARES FUND) [Schedule VII (Table: Sl. No. 10)]
- (b) The Prime Minister's Fund (Promotion of Folk Art) [Schedule VII (Table: Sl. No. 11)]
- (c) The Prime Minister's Aid to Students Fund [Schedule VII (Table: Sl. No. 12)]
- (d) The National Foundation for Communal Harmony [Schedule VII (Table: Sl. No. 13)]
- (e) The Swachh Bharat Kosh, set up by the Central Government [Schedule VII (Table: Sl. No. 14)]
- (f) The Clean Ganga Fund set up by the Central Government [Schedule VII (Table: Sl. No. 15)]
- (g) The Chief Minister's Relief Fund or the Lieutenant Governor's Relief Fund in respect of any State or Union territory as referred to in section 133(1)(a)(xv) [Schedule VII (Table: Sl. No. 16)]

This amendment restores the position as it existed under section 10(23C) of the ITA 1961 and removes an unnecessary compliance burden on funds whose income is otherwise unconditionally exempt.

5.4 Registered NPOs Can File a Belated Return Without Losing the Exemption

[Applicable from Tax Year 2026-27]

Section 349 of the ITA 2025 mandates that where the total income of a registered NPO, computed without giving effect to the provisions of Chapter XVII-B, exceeds the maximum amount not chargeable to tax for any tax year, such organisation shall furnish its return of income in accordance with Section 263(1)(a)(iii) and (2), within the due date prescribed under Section 263(1)(c). This provision broadly corresponds to Section 12A(1)(ba) of the ITA 1961. Under the 1961 Act, entities registered under section 12AB were required to file a return of income under section 139(4A) where their total income, before giving effect to Sections 11 and 12, exceeded the basic exemption limit. Importantly, the statutory framework under the 1961 Act permitted such returns to be filed either within the due date under section 139(1) or as a belated return under section 139(4). In contrast, the 2025 Act does not recognise the concept of a belated return for a registered NPO. Exemption under the special NPO regime is available only where the return is furnished within the original due date specified under Section 263(1)(c). There is no reference to Section 263(4), which otherwise permits belated filing of returns within the extended statutory timeline.

The Finance Bill 2026 proposes to amend Section 349 to insert a reference to Section 263(4), allowing registered NPOs to file a belated return and still claim exemption. The existing provision indicated that a delay in filing the return triggered a special computation under section 353 and loss of exemption for that year. This amendment aligns the ITA 2025 with the ITA 1961 position. Accordingly, where the return is furnished within the time limit permitted for

filing an original or belated return, it shall not be treated as an "other violation" under Section 353.

6. Exemptions and Deductions

6.1 Tax Holiday for Foreign Companies Procuring Data Centre Services From India

[Applicable from Tax Year 2026–27]

Section 11, read with Schedule IV of the ITA 2025 [corresponding to Section 10 of the ITA 1961], covers specified categories of income of eligible non-residents and foreign companies which are excluded from the computation of total income.

To encourage the development of data centre infrastructure and support the growth of artificial intelligence-led digital capabilities in India, the Finance Bill 2026 proposes to insert Sl. No. 13C in the Table of Schedule IV to provide an income tax exemption to foreign companies for income earned from procuring data centre services from a specified data centre in India. Such exemption shall be available for income accruing or arising, or deemed to accrue or arise, in India up to the tax year ending on 31st March, 2047. The exemption shall be subject to the condition that services provided by the foreign company to customers located in India are undertaken through an Indian reseller entity.

6.2 Tax Exemption for Foreign Companies Supplying Capital Equipment to Electronic Goods Manufacturers in Bonded Warehouses

[Applicable from Tax Year 2026–27]

Section 11, read with Schedule IV of the ITA 2025 [corresponding to Section 10 of the ITA 1961], currently outlines specific categories of income of eligible non-residents and foreign companies that are excluded from total income.

To promote domestic manufacturing of electronic goods through contract manufacturing and to provide tax clarity for the supply of capital assets by foreign companies, it is proposed to insert Sl. No. 13A in the Table of Schedule IV to exclude income earned by a foreign company from supplying capital goods, equipment, or tooling to an Indian resident contract manufacturer. The contract manufacturer must be located in a customs bonded area, specifically a warehouse as referred to in section 65 of the Customs Act, 1962, and must manufacture electronic goods on behalf of the foreign company for consideration. The exemption shall be available for income arising up to Tax Year 2030–31.

6.3 Tax Relief for Non-Resident Individuals Providing Services Under a Notified Government Scheme

[Applicable from Tax Year 2026–27]

Section 11, read with Schedule IV of the ITA 2025 [corresponding to Section 10 of the ITA 1961], specifies certain categories of income for non-residents, foreign companies, and other eligible persons that are excluded from total income calculation.

With a view to providing certainty in the taxation of non-resident individuals who visit India for rendering services in connection with a scheme notified by the Central Government, it is

proposed, by the Finance Bill, 2026, to insert Sl. No. 13B in Schedule IV to grant an exemption in respect of income accruing or arising outside India and not deemed to accrue or arise in India. Such exemption shall be available for a period of five consecutive tax years commencing from the tax year in which the individual first visits India for rendering such services, subject to the condition that the individual was a non-resident during the five tax years immediately preceding that tax year and fulfils such other conditions as may be prescribed.

6.4 Deduction in Respect of Dividends Received and Distributed by Cooperative Societies

[Applicable from Tax Year 2026–27]

Section 149(2)(d) of the ITA 2025 [Corresponding to Section 80P(2)(d) of the ITA 1961] provides for a deduction in respect of the income of a cooperative society from interest or dividends received from another cooperative society. Currently, this deduction is available under the old tax regime.

It is proposed to permit deductions in the new tax regime for dividends received by a cooperative society from another cooperative society, to the extent that such dividends are subsequently distributed to its members. Consequently, amendments have also been made to Sections 203 and 204 of the ITA 2025 (Section 115BAD and 115BAE of the ITA 1961).

6.5 Deduction Regarding the Income of a Federal Cooperative Society

[Applicable from Tax Year 2026–27]

The Finance Bill, 2026, proposes to substitute Section 150 and introduce a new provision for federal cooperative societies, permitting a deduction for dividends received by notified federal cooperative societies from companies for three years, up to the tax year 2028–29, under both the old and new tax regimes. This deduction will apply only to dividends arising from investments made by such federal cooperative societies up to 31st January 2026, which are subsequently distributed to their members at least one month before the deadline for filing income tax returns under section 263(1) of the ITA 2025 [Corresponding to Section 139(1) of the ITA 1961].

Consequently, amendments have been made in Sections 203 and 204 of the ITA 2025 (Section 115BAD and 115BAE of the ITA 1961).

6.6 Disability Pension to Armed Forces and Paramilitary Personnel Shall Be Exempt Only Where the Individual Is Invalided Out of Service Due to a Service-Related Disability

[Applicable from Tax Year 2026–27]

Disability pension is granted to members of the Armed Forces where an individual is invalided out of service on account of a bodily disability attributable to, or aggravated by, military, naval or air force service. Such a pension comprises a service element and a disability element and is distinct from a pension received on superannuation or other forms of retirement. While disability pension has historically been treated as exempt, there was ambiguity about whether a pension received under superannuation or otherwise could also be treated as exempt.

To provide clarity, it is proposed to amend Schedule III of the ITA 2025 to expressly state that the exemption for disability pension (including both service and disability elements)

applies only when the individual is invalidated out of service due to a service-related disability. It is further proposed that this exemption shall not apply where the individual has retired on superannuation or otherwise. The exemption is also proposed to be extended to paramilitary personnel on the same basis.

6.7 Exemption of Income Arising From Compulsory Acquisition of Land Under the RFCTLARR Act

[Applicable from Tax Year 2026-27]

Under the existing provisions of Section 11 read with Schedule III of the ITA 2025 [corresponding to Section 10(37) of the ITA 1961], exemption is available to an individual or a HUF in respect of capital gains arising from the transfer of agricultural land by way of compulsory acquisition under any law, subject to specified conditions. However, the Income-tax Act did not expressly provide an exemption for income arising from compulsory acquisition of land under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act). Although Section 96 of the RFCTLARR Act provides that no income tax shall be levied on any award or agreement made under that Act (other than those covered by Section 46), the absence of a specific exemption provision in the Income-tax law led to interpretational issues, which were addressed through CBDT Circular No. 36/2016 under the ITA 1961.

To align the ITA 2025 with the provisions of the RFCTLARR Act and remove any ambiguity, it is proposed to amend Schedule III to provide an explicit exemption for any income arising from an award or agreement on account of compulsory acquisition of any land under the RFCTLARR Act, other than cases covered under Section 46 of that Act.

6.8 Extension of Deduction Under Section 149 for Ancillary Activities Related to Cattle Feed and Cotton Seeds

[Applicable from Tax Year 2026-27]

Section 149(2)(b) of the ITA 2025 [Corresponding to Section 80P(2)(b) of the ITA 1961] allows for the deduction of the entire profits and gains from business in the case of a primary cooperative society engaged in supplying milk, oilseeds, fruits, or vegetables grown or raised by its members to a federal cooperative society, the Government, a local authority, or to a Government company or corporation involved in the same business.

It is proposed to expand the scope of deduction under Section 149(2)(b) to include profits and gains from ancillary activities, such as supplying cattle feed and cotton seeds, carried out by members of the primary cooperative society.

6.9 Alignment of "Specified Fund" Definition with Section 10(4D)

[Applicable from Tax Year 2026-27]

Section 10(4D) of the ITA 1961 grants exemption in respect of certain capital gains and income from securities to specified funds operating from an International Financial Services Centre (IFSC). Corresponding provisions under the ITA 2025 are contained in Serial Nos. 1 to 4 of Schedule VI, which apply to any "specified fund" as defined in Note 1(g) to the said Schedule.

The Finance Bill, 2026, proposes to amend Note 1(g) of Schedule VI to align the definition of "specified fund" under the ITA 2025 with the definition provided in section 10(4D) of the ITA 1961, along with consequential amendments.

This alignment ensures consistency between the two Acts and removes potential interpretational issues for IFSC-based investment funds claiming exemption under the new law.

6.10 Extension of the Deduction Period and Rationalisation of the Post-Holiday Tax Rate for IFSC Units and OBUs

[Applicable from Tax Year 2026–27]

Section 147 of the ITA 2025 [corresponding to Section 80LA of the ITA 1961] provides a deduction of 100 per cent of specified income to units located in an International Financial Services Centre (IFSC) and to Offshore Banking Units (OBUs). Such deduction is available for a period of ten consecutive years out of fifteen years for IFSC units and for ten consecutive years for OBUs.

To strengthen the global competitiveness of IFSCs, it is proposed to extend the eligible deduction period to twenty consecutive years out of twenty-five years for units set up in an IFSC and to twenty consecutive years for OBUs. It is further proposed in Section 218 of the ITA 2025 that, upon the expiry of the deduction period, the business income of such units derived from operations in the IFSC shall be chargeable to tax at a rate of 15 per cent.

6.11 Deduction in Respect of Dividends Received and Distributed by Cooperative Societies

[Applicable from Tax Year 2026–27]

Section 149(2)(d) of the ITA, 2025 [Corresponding to Section 80P(2)(d) of the ITA 1961], provides for a deduction in respect of the income of a cooperative society from interest or dividends received from another cooperative society. Currently, this deduction is only available under the old tax regime, and dividends received by a cooperative society from a company are taxable in its hands.

It is proposed to permit deductions in the new tax regime for dividends received by a cooperative society from another cooperative society, to the extent that such dividends are subsequently distributed to its members.

It is further proposed to allow deduction in respect of dividends received by notified federal cooperative societies from companies for a period of three years, up to tax year 2028–29, under both the old and new tax regimes. This deduction shall be available only in respect of dividends arising from investments made by such federal cooperative societies up to 31st January, 2026 and which are further distributed to their members.

7. TDS/TCS

7.1 No Tax and TDS on Interest Awarded Under the Motor Vehicles Act, 1988

[Applicable from Tax Year 2026–27]

Compensation awarded under the Motor Vehicles Act, 1988, to an individual or his legal heir on account of death or bodily injury is not taxable on the grounds that it is in the nature of a capital receipt. However, interest on such compensation is taxable and subject to tax deduction at source if the interest exceeds Rs. 50,000.

To provide comprehensive relief to accident victims and their families, it is proposed to amend Schedule III to exempt interest income awarded under the Motor Vehicles Act, 1988, from tax. Consequently, it is also proposed that no tax shall be deducted at source on such interest. Accordingly, the interest awarded on compensation under the Motor Vehicles Act, 1988, shall neither be taxable nor subject to TDS.

7.2 Electronic Verification for Lower or Nil TDS Certificates for Small Taxpayers

[Applicable from 01-04-2026]

Under the existing provisions of Section 395 of the ITA 2025 (corresponding to Section 197 of the ITA 1961), applications for a certificate for deduction of tax at a lower or nil rate are verified manually by the Assessing Officer, which often results in delays and increased compliance burden.

To simplify compliance for small taxpayers, Section 395 is amended to provide an optional electronic route whereby the payee may file an application before a prescribed income-tax authority, instead of the Assessing Officer. Under this option, verification and issuance of the certificate shall be carried out electronically, subject to the fulfilment of prescribed eligibility conditions. The prescribed authority may either issue the certificate or reject the application where the eligibility conditions are not satisfied or the application is incomplete.

7.3 Resident Individuals and HUFs Do Not Require a TAN to Deduct Tax From Consideration Paid to a Non-Resident for the Purchase of Immovable Property

[Applicable from 01-10-2026]

Under the existing provisions of the ITA 2025, a person buying immovable property from a resident seller has to deduct tax at source, but is not required to obtain a Tax Deduction and Collection Account Number (TAN). In such cases, buyers may use their PAN instead of their TAN for compliance purposes. However, when a person buys immovable property from a non-resident seller, the buyer is required to obtain a TAN to deduct tax at source, even if the transaction is a single, one-time purchase. This creates an additional compliance burden for resident buyers.

To bring the similar transactions at par, Section 397 is proposed to be amended to provide that a resident individual or HUF shall not be required to obtain TAN for deducting tax at source under section 393(2) [Table Sl. No. 17] (Corresponding to Section 195 of the Income-tax Act, 1961) from the payment of consideration to a non-resident on transfer of immovable property.

7.4 Investors Earning Dividends/Interest Can File a Declaration for Non-Deduction of Tax With the Depository Instead of Multiple Payers

[Applicable from 01-04-2027]

As per Section 393(6) of the ITA 2025 (corresponding to Section 197A of the ITA 1961), an assessee is required to furnish a separate declaration for non-deduction of tax at source to each person responsible for paying income. Such income includes dividends, interest on securities, and income from mutual fund units. When investors hold securities or units across

different payers, this results in the filing of multiple declarations with different payers, which increases the compliance burden.

To simplify compliance for investors, Section 393(6) is proposed to be amended to allow such declarations for non-deduction of tax to be filed with the depository. The depository shall, in turn, make the declaration available to the person responsible for paying such income. Further, to ease compliance for the payer, the time limit for furnishing such declarations to the prescribed income-tax authority is proposed to be changed from monthly to quarterly. This facility shall be available only where the securities or units are held in dematerialised form with a depository and are listed on a recognised stock exchange in India.

7.5 Supply of Manpower Included Within the Definition of 'Work' to Avoid TDS Ambiguity *[Applicable from 01-04-2026]*

As per Section 393(1) of the ITA 2025, tax deduction at source on payments for services is governed by multiple entries in the prescribed Table:

- Table Sl. No. 6(i) (corresponding to Section 194C of the ITA 1961) applies to payments made to contractors for carrying out any work.
- Table Sl. No. 6(iii) (corresponding to Section 194J of the ITA 1961) applies to payments for professional services or fees for technical services.
- Table Sl. No. 6(ii) (corresponding to Section 194M of the ITA 1961) applies to payments made by individuals or HUFs under a contract for work or for professional or technical services, where tax is not otherwise deductible under the above provisions.

In the absence of a specific provision, there was an ambiguity about whether payments for the supply of manpower should be treated as contractual payments, technical services, or covered under the residual provision, leading to disputes over the applicable provision and the TDS rate.

To provide clarity, it is proposed to include the supply of manpower within the definition of "work" under Section 402. As a result, payments for the supply of manpower shall be subject to TDS under the contractor provisions of Section 393(1) [Table Sl. No. 6(i) or 6(ii)], as applicable, and not under the provisions relating to professional or technical services.

7.6 No TDS on Interest Paid to Co-Operative Banking Societies *[Applicable from 01-04-2026]*

Section 393 of the ITA 2025 contains the provisions relating to the deduction of tax at source. Section 393(4) specifies situations where tax is not required to be deducted at source, subject to prescribed conditions.

The Finance Bill, 2026, proposes to amend Section 393(4), Table: Sl. No. 7, Column C (a)(i) [corresponding to Section 194A(3)(iii) of the ITA 1961]. The existing clause provides that no TDS is required on interest (other than interest on securities) where such interest is credited or paid to a banking company. The proposed amendment extends this benefit to co-operative societies engaged in the business of banking, including co-operative land mortgage banks. Accordingly, with effect from 1 April 2026, no tax shall be required to be deducted at source on interest (other than interest on securities) paid or credited to such co-operative banking societies.

7.7 TCS Rates Rationalised to Largely Introduce a Uniform Rate of 2%

[Applicable from 1st April 2026]

Under the existing provisions of Section 394(1) of the ITA 2025 (corresponding to Section 206C of the ITA 1961), multiple rates of tax collection at source are prescribed for different transactions. To simplify the TCS framework, it is proposed to rationalise the rates by prescribing largely uniform rates as follows.

Nature of Receipt	Existing 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, lignite or iron ore)	1%	2%
Remittance under LRS for education or medical treatment exceeding Rs. 10 lakh	5%	2%
Sale of overseas tour programme package	5% up to Rs. 10 lakh/20% above Rs. 10 lakh	2% (no threshold)

7.8 Guidelines Binding on Income-Tax Authorities and Persons Liable to Deduct or Collect Income Tax

[Applicable from 1st April 2026]

Section 400(2) of the ITA 2025 authorises the Board, with prior approval from the Central Government, to issue guidelines to address difficulties in implementing TDS/TCS provisions. However, unlike the corresponding provision in the ITA 1961, it does not explicitly make these guidelines binding.

Removing the binding effect of the guidelines on taxpayers and income tax authorities may change their legal standing. Under the 1961 Act, this binding effect established a statutory obligation for both the deductor and the departmental authorities to adhere to the CBDT's interpretation, thereby ensuring consistency and predictability in the application of TDS provisions.

With the removal of binding nature, CBDT's guidelines may now be seen more as clarificatory or advisory documents rather than mandatory instructions. Deductors would no longer be required to follow these guidelines, and simply adhering to them would not offer legal protection. This increases the potential for interpretational differences, enforcement inconsistencies across jurisdictions, and a higher risk of disputes and litigation.

To prevent disputes and litigation, Section 400(2) is proposed to be amended to specify that such guidelines shall be binding on income-tax authorities and persons responsible for deducting or collecting income-tax.

7.9 Amendment to Section 399 to Specify Applicable Sub-Sections of Section 427

The Finance Bill, 2026, proposes to amend section 399 of the ITA 2025 [corresponding to Section 200A of the ITA 1961] by replacing the reference to "Section 427 [corresponding to Section 234E of the ITA 1961]," with a specific reference to sub-sections (1) and (2) of section 427.

This change is necessary because the Finance Bill, 2026, proposes to amend section 427 by adding a new sub-section (3). Since the provisions of Section 399 are not meant to apply to sub-section (3) of Section 427, the reference in Section 399 has been appropriately modified to explicitly include only sub-sections (1) and (2).

8. Return of Income

8.1 Due Date for Filing Return Extended From 31st July to 31st August for Non-Audit Business Taxpayers and Partners of Non-Audit Firms

[Applicable from Assessment Year 2026-27 and Tax Year 2026-27]

As per Section 263(1)(c) of the ITA 2025 (corresponding to *Explanation 2* to Section 139(1) of the ITA 1961), the due date of 31st July for filing the return of income applies to all assesseees except the following:

- (a) Corporate assessee;
- (b) Non-corporate assessee (whose books of account are required to be audited);
- (c) Partner of a firm whose accounts are required to be audited or the spouse of such partner if the provisions of Section 10 (Corresponding to Section 5A of ITA 1961) apply; or
- (d) An assessee to whom section 172 (corresponding to Section 92E of the ITA 1961) applies.

It is observed that taxpayers engaged in business or a profession whose accounts are not required to be audited, partners of non-audit firms, and trusts require additional time to finalise their books of account and complete return-filing compliance. Accordingly, Section 263(1)(c) is proposed to be amended to extend the due date for filing the return of income from 31st July to 31st August for:

- (a) Assesseees having income from business or profession whose accounts are not required to be audited, and
- (b) Partner of a firm whose accounts are not required to be audited (and his spouse if section 10 applies).

The due date of 31st July shall continue to apply to assesseees not having income from business or profession. Accordingly, individuals or HUFs filing returns in ITR-1 or ITR-2, as well as trusts not having business income, shall continue to be governed by the 31st July due date.

With the proposed amendment, the due dates for filing the original return for a different class of taxpayers would be as follows:

Class of Taxpayer	Due Date if TP Report is Required to Be Furnished	Due Date if Audit Under the Income Tax Act or Any Other Law is Required	Due Date if Assessee Has Income from Business or Profession	Due Date in Any Other Case
Company	30 th November	31 st October	31 st October	31 st October
Firm or LLP	30 th November	31 st October	31 st August	31 st July
Partner in Firm	30 th November	31 st October	31 st August**	31 st August
Individual or HUF*	30 th November	31 st October	31 st August	31 st July
Company claiming exemption under Section 11	30 th November	31 st October	31 st October	31 st October
AOP or BOI	30 th November	31 st October	31 st August	31 st July
Artificial Juridical Person	30 th November	31 st October	31 st August	31 st July
Co-operative Society	30 th November	31 st October	31 st August	31 st July
Local Authority	30 th November	31 st October	31 st August	31 st July
Registered NPOs	30 th November	31 st October	31 st August	31 st July
Political Party	30 th November	31 st October	31 st August	31 st July
Associations or Institutes as referred to in Section 263(1)(a)(iv) & 263(9)(c) [corresponds to Section 139(4C) of ITA 1961]	30 th November	31 st October	31 st August	31 st July
University, College or Other institution as referred to in Section 45(3)(a)(i)/(ii) [corresponds to Section 35(1)(ii)/(iii) of ITA 1961]	30 th November	31 st October	31 st August	31 st July

Business Trust	30 th November	31 st October	31 st August	31 st July
Investment Fund as referred to in Section 224 [Corre- sponds to Section 115UB of ITA 1961]	30 th November	31 st October	31 st August	31 st July

* If an Individual is the spouse of a person who is a partner in a firm whose accounts are required to be audited and the provisions of Section 10 of the ITA 2025 [corresponding to Section 5A of the ITA 1961] apply to such spouse, the due date shall be 31st October. If the firm is not required to get its accounts audited, the due date shall be 31st August. Further, if such a firm is required to furnish a report of Transfer Pricing (TP) Audit, the due date shall be 30th November.

** If the firm is not required to get its accounts audited, the due date for the partner shall still be 31st August, even if he does not have income from business or profession.

Corresponding amendments are also proposed in *Explanation 2* to Section 139(1) of the ITA 1961, to maintain parity with the ITA 2025. Accordingly, the revised due date of 31st August shall apply for the

- (a) Previous year 2025-26 (assessment year 2026-27) under the ITA 1961; and
- (b) Tax year 2026-27 onwards under the ITA 2025.

8.2 An Updated Return Can Be Filed After the Issue of a Reassessment Notice [Applicable from Tax Year 2026-27]

Section 263 of the ITA 2025 [corresponding to Section 139 of the ITA 1961] provides a framework for filing returns of income, including original, belated, revised and updated returns. An updated return may be filed within 48 months from the end of the financial year succeeding the relevant tax year. The filing of an updated return is subject to certain conditions that it should not be a return of loss, not reduce tax liability or increase a refund. Section 263(6)(c)(v) of the ITA 2025 [corresponding to the *third proviso* to Section 139(8A) of ITA 1961] prohibits the filing of an updated return where proceedings for assessment, reassessment, recomputation, or revision of income are pending or have been completed for the relevant tax year. Consequently, once a notice of reassessment is issued, the option to file an updated return is barred, even if the taxpayer is willing to disclose income and pay the applicable taxes voluntarily.

To reduce litigation and promote voluntary compliance, it is proposed to amend Section 263 to allow the filing of an updated return in pursuance of a notice issued under Section 280, within the period specified in such notice, with a bar on filing the return in any other manner. Section 267 of the ITA 2025 [corresponding to Section 140B of ITA 1961] is also proposed to be amended to levy an additional 10% of the aggregate of tax and interest payable in such cases, with immunity from penalty under Section 439 [Section 270A of the ITA 1961] on the income so disclosed.

Corresponding amendments are proposed to the Income-tax Act, 1961, to align it with the proposed changes in the Income-tax Act, 2025.

8.3 An Associated Enterprise Can Also File a Modified Return if Its Income Is Changed Due to APA

[Applicable from Tax Year 2026-27 and for APAs Entered Into On or After 1 April 2026]

Section 169 read with Section 168(1) of the ITA 2025 [corresponding to Section 92CD read with Section 92CC(1) of the ITA 1961] states that if a return of income for any tax year covered by an advance pricing agreement (APA) has been furnished by any person before the date of entering into the agreement, he shall file a modified return, in accordance with and limited to the agreement, for such tax years within 3 months from the end of the month in which the agreement was entered into. If the APA causes a change in the income of the associated enterprise (AE), the law does not allow that AE to revise or file its return. Consequently, associated enterprises cannot claim refunds for excess tax paid or TDS deducted, even if the APA alters their income, leading to hardship and unfairness.

To address this gap, the Finance Bill 2026 proposes to amend Section 169 to allow not only the person entering into the APA but also any other associated enterprise whose income is changed due to the APA to file a return or a modified return within 3 months from the end of the month in which the APA is entered into. This benefit will apply to APAs entered into on or after 1 April 2026 and to tax years beginning on or after 1 April 2026.

8.4 The Time Limit for Filing a Revised Return Is Extended to 12 Months, With a Fee Applicable for Returns Filed Beyond Nine Months

[Applicable from Assessment Year 2026-27 and Tax Year 2026-27]

Under the existing provisions of Section 263(5) of the ITA 2025 (corresponding to Section 139(5) of the ITA 1961), a revised return can be furnished within nine months from the end of the relevant tax year or before completion of assessment, whichever is earlier. Since the time limit for filing a belated return is also nine months, a taxpayer filing a belated return at the end of the permitted period is left with no opportunity to revise the return.

To address this issue, it is proposed to extend the time limit for filing a revised return from nine months to twelve months from the end of the relevant tax year or before completion of assessment, whichever is earlier. This extension will allow taxpayers to revise their returns even if a belated return was filed at the end of the permissible period. It is further proposed to levy a fee under Section 428(b) of the ITA 2025 [corresponding to Section 234-I of the ITA 1961] where a revised return is filed beyond nine months from the end of the relevant tax year. The fee shall be:

- (a) Rs. 1,000, where the total income does not exceed Rs. 5 lakh; and
- (b) Rs. 5,000, in other cases.

Corresponding amendments are also proposed to Section 139(5) of the ITA 1961, introducing a new Section 234-I to levy a similar fee for the delayed filing of revised returns. Accordingly, the extended timeline and fee provisions shall apply for the:

- (a) Previous year 2025-26 (assessment year 2026-27) under the ITA 1961; and
- (b) Tax year 2026-27 onwards under the ITA 2025.

8.5 Corrections in Provisions Relating to PAN

[Applicable from Tax Year 2026-27]

Section 262(10)(c) [corresponding to Section 139A(5)(c) of ITA 1961] empowers the CBDT to prescribe rules requiring the quoting of Permanent Account Number (PAN) in documents relating to business or profession. However, it does not extend this power to documents relating to transactions outside business or profession.

Thus, Section 262(10)(c) is proposed to be amended to empower CBDT to prescribe rules for quoting PAN in documents relating to transactions not connected with business or profession, in line with the corresponding provision of the ITA 1961.

8.6 Updated Return Allowed Where the Loss Originally Claimed Is Reduced

[Applicable from Assessment Year 2026-27 and Tax Year 2026-27]

Under the existing provisions of Section 263(6) of the ITA 2025 (corresponding to Section 139(8A) of the ITA 1961), a taxpayer is permitted to file an updated return within the prescribed time limit. However, an updated return cannot be filed in case of a return of loss, nor can it reduce tax liability or increase a refund. Consequently, where a taxpayer had originally filed a return of loss, filing an updated return to reduce the amount of loss was not permitted, even if such a reduction resulted in a higher taxable income.

To address this issue, it is proposed to amend Section 263(6) to allow the filing of an updated return when the taxpayer reduces the amount of loss compared to the loss claimed in a return furnished by the due date under Section 263(1). Corresponding amendments are also proposed in Section 139(8A) of the ITA 1961.

This amendment will apply from tax year 2026-27 onwards under the ITA 2025 and from assessment year 2026-27 under the ITA 1961.

9. Assessment

9.1 JAO vs FAO Jurisdiction in Reassessment – Controversy Settled by Retrospective Amendment

[Retrospective from 01-04-2021 Under the ITA 1961 and w.e.f. 01-04-2026 Under the ITA 2025]

A significant controversy arose after the decision of *Hexaware Technologies Ltd. vs. Asst. CIT [2024] 162 taxmann.com 225 (Bombay)* by the Bombay High Court, where the Court held that, in view of the Scheme notified under section 151A of the ITA 1961, notices under sections 148 and 148A were required to be issued in a faceless manner through automated allocation and, therefore, could not be issued by the Jurisdictional Assessing Officer (JAO). The Court reasoned that once the CBDT had framed a Scheme mandating automated allocation and faceless processes, there could be no concurrent jurisdiction between the JAO and the Faceless Assessing Officer (FAO/NaFAC) for issuing reassessment notices. This interpretation triggered widespread litigation across the country, placing the validity of thousands of reassessment notices issued by JAOs from 1 April 2021 onwards under serious challenge.

The Memorandum to the Finance Bill, 2026, explains that the legislative intent was not correctly appreciated in such decisions. It explains that the reassessment mechanism under Section 147 operates in two distinct stages. The first stage is the pre-assessment enquiry, beginning with notice under section 148A and culminating in the issuance of notice under section 148. This stage is intended to be carried out by the Assessing Officer who forms the satisfaction regarding the escapement of income. The second stage commences after issuance of notice under section 148, where the actual reassessment is conducted in a faceless manner by the National Faceless Assessment Centre under section 144B. The faceless regime, therefore, was always intended to apply to the assessment proceedings and not to the jurisdictional act of initiating reassessment by issuing notice.

To place this position beyond doubt and to prevent further litigation, the Finance Bill, 2026 proposes a retrospective clarification in the ITA 1961 with effect from 1 April 2021. It provides that, notwithstanding anything contained in any judgment, order or decree of any court, for the purposes of Sections 148 and 148A, the expression "Assessing Officer" shall be deemed to mean the Jurisdictional Assessing Officer and shall exclude the National Faceless Assessment Centre and its assessment units. This legislative declaration directly addresses the foundation of the *Hexaware* ruling and validates the jurisdiction of JAOs to issue notices and conduct pre-assessment enquiries since the inception of the new reassessment regime.

A corresponding clarification has also been proposed to be incorporated in Section 279 of the ITA 2025. For the purpose of Sections 280 and 281 of the ITA 2025 [corresponding to Sections 148 and 148A of the ITA 1961], Section 279 has been proposed to be amended to expressly exclude NaFAC and its assessment units from the meaning of "Assessing Officer" for the purpose of issuing reassessment notices and conducting pre-assessment enquiries. This ensures that the interpretational controversy does not re-emerge under the new law.

The net effect of this amendment is that the long-standing JAO vs FAO jurisdictional debate stands conclusively resolved in favour of the legislative intent that initiation of reassessment is a jurisdictional function of the Assessing Officer, whereas the conduct of reassessment proceedings is a faceless function of NaFAC. By retrospectively amending the 1961 Act and prospectively clarifying the position in the 2025 Act, the legislature has sought to neutralise ongoing litigation, protect the validity of reassessment notices issued over the past several years, and bring certainty to the reassessment framework.

9.2 Assessments Not to Be Invalid on Account of Mistakes Relating to the Computer-Generated DIN

[Applicable from Tax Year 2026-27]

Section 522 of the ITA, 2025 (corresponding to Section 292B of the ITA 1961) provides that assessments, notices or proceedings shall not be invalid merely due to any mistake, defect or omission if they substantially conform to the intent and purpose of the Act. *CBDT Circular No. 19 of 2019* has mandated quoting a computer-generated Document Identification Number (DIN) on assessment orders. However, courts have invalidated assessments on technical grounds, such as failing to quote the DIN on every page or within the order itself, even when the DIN was properly generated and referenced in accompanying communications, leading to avoidable litigation.

To remove ambiguity, Section 522 proposes to clarify that assessments shall not be invalid merely due to mistakes, defects or omissions in quoting DIN, provided the assessment order is referenced by DIN in any manner, and such reference shall constitute sufficient compliance despite minor defects or omissions in related notices or summons. The corresponding amendment has also been proposed in the ITA 1961, and will be effective retrospectively from 1 October 2019.

9.3 Clarifying the Time Limit for Completing the Assessment

[Applicable from 1st April, 2026]

Section 275 of the ITA 2025 (corresponding to Section 144C of ITA 1961) provides a special assessment process for eligible assesses, mainly when a variation occurs in transfer pricing cases or when the person is a non-resident. It provides that the Assessing Officer (AO) must initially issue a draft assessment order. The assessee can then either accept the proposed variations or object before the Dispute Resolution Panel (DRP). If the assessee accepts the draft order, the AO must issue the final order within one month from the end of the month in which the acceptance is received, or within 30 days of filing objections before the DRP. If objections are filed, the DRP must issue directions within nine months from the end of the month in which the draft order is forwarded to the eligible assessee, and the AO must complete the assessment within one month thereafter under Section 275(14) of the ITA 2025 (corresponding to Section 144C(13) of the ITA 1961). Both these provisions clearly state that these timelines apply regardless of Section 286 of the ITA 2025 (Corresponding to Sections 153 or 153B of the ITA 1961). However, courts have issued different interpretations, with some ruling that the overall time limits under Sections 153/153B still apply to the entire Section 144C process. Even the Supreme Court has delivered a split verdict, leading to uncertainty and ongoing litigation.

To eliminate this ambiguity, it is proposed that Sections 153 and 153B be amended to clarify the legislative intent. The proposal indicates that the timelines under Sections 153 and 153B will apply only up to the draft order stage. After the draft order is issued, the subsequent stages (acceptance by the assessee, proceedings before the DRP, and finalisation of assessment) will be governed solely by the timelines prescribed under Section 144C. This clarification is intended to apply notwithstanding any court judgment, order, or decree. Parallel amendments are also proposed in the ITA 2025 to ensure consistency and prevent future interpretational disputes.

The consequential amendments to the ITA 1961 in the relevant provisions shall apply retrospectively from 1 April 2009 for Section 153 and from 1 October 2009 for Section 153B.

9.4 Rationalisation of the Block Period in the Case of Other Persons

[Applicable from Tax Year 2026-27]

Section 295 [corresponding to Section 158BD of the ITA, 1961] provides that where the Assessing Officer is satisfied that any undisclosed income belongs to or pertains to or relates to a person other than the person in respect of whom a search under Section 247 [corresponding to Section 132 of the ITA, 1961] or requisition under Section 248 [corresponding to Section 132A of the ITA, 1961] was initiated, such material shall be handed over to the Assessing Officer having jurisdiction over such other person. Thereafter, the Assessing Officer of the other person is

required to proceed under Section 294 [corresponding to Section 158BC of the ITA, 1961], and the provisions relating to block assessment apply in the same manner as applicable to the searched person. Under the existing provisions, the block period remains the same for both the specified person and the other person. It has been observed that even where undisclosed income relating to another person pertains only to a single tax year, such a person is required to undergo the full block assessment procedure, resulting in an increased compliance burden despite no search or requisition being conducted in their case.

The Finance Bill 2026 proposes to amend Section 295(2) to rationalise and limit the block period in cases involving other persons. It is proposed that, where another person's undisclosed income relates only to a limited period or to a single tax year, the block assessment for that person will be restricted accordingly. If the income pertains only to the year immediately preceding the search and the period up to the date of search, the block period will cover only that year and the relevant part of the search year. Likewise, if the undisclosed income relates to only one of the preceding five years, the block period will be limited to that year.

9.5 Time Limit to Complete the Block Assessment

[Applicable from Tax Year 2026-27]

Section 296 [corresponding to Section 158BE of the ITA, 1961] prescribes the time limit for completion of a block assessment under Section 294 [corresponding to Section 158BC of the ITA, 1961]. Under the existing provisions, an assessment or reassessment order must be completed within twelve months of the end of the quarter in which the last authorisation for search was executed, or the requisition was made.

It has been observed that references to the last date of authorisation lead to differing limitation periods in group search cases, where search and seizure proceedings are conducted against multiple persons.

Accordingly, it is proposed to amend Section 296 to take the date of initiation of the search or requisition as the reference point for computing the limitation period. Furthermore, the time limit for completing the block assessment in such cases is proposed to be extended from 12 months to 18 months.

9.6 An Extended Time Limit of 12 Months Applies to the Draft Assessment Order

[Applicable from Tax Year 2026-27]

Section 286(2) [Corresponds to Section 153 of ITA 1961] provides that the time limit for completing an assessment or reassessment shall be extended by 12 months where a reference is made to the Transfer Pricing Officer for the determination of the arm's length price.

To eliminate ambiguity and avoid litigation concerning the time limit for issuing the draft assessment order, it is proposed to amend section 286 by incorporating the existing provision under sub-section (2)(a) and introducing a new sub-section (2)(b), which provides that the draft assessment order shall be issued within the time limit applicable for completion of the assessment, including any extension granted under sub-section (2).

10. Penalty & Prosecution

10.1 Extension of Immunity to Cases of Misreporting of Income

[Applicable from Tax Year 2026-27]

Section 440 of the ITA 2025 [corresponding to Section 270AA of the ITA 1961] provides for the grant of immunity by the AO from the imposition of penalty or prosecution, subject to the payment of tax and interest within the period specified in the notice of demand and the non-filing of an appeal against the assessment order. Such immunity applies only to under-reporting of income, not to under-reporting due to misreporting.

It is proposed to extend the scope of immunity under Section 440 to cases of under-reporting of income in consequence of misreporting, subject to payment of additional income-tax equal to 100% of the tax payable on such income in lieu of penalty. Furthermore, since the separate penalty under Section 443 of the ITA 2025 [Corresponding to Section 271AAC of the ITA 1961] in respect of the unexplained income mentioned in Sections 102 to 106 of the ITA 2025 [Corresponding Sections from 68 to 69D of the ITA 1961] is proposed to be removed and incorporated into misreporting of income under Section 439(11) of the ITA 2025 [Corresponding to Section 270A(g) of the ITA 1961], it is also proposed to extend immunity under section 440 to these cases, subject to paying an additional income-tax to the extent of 120% of the tax due on such income. Accordingly, the scope of immunity under Section 270AA of the ITA 1961 has been expanded to include cases where the penalty is initiated for under-reporting of income due to misreporting, subject to the prescribed conditions and the payment of additional tax in lieu of penalty.

10.2 Penalty for Non-Furnishing or Inaccurate Crypto Transaction Reporting

[Applicable from Tax Year 2026-27]

Section 509 of ITA 2025 [corresponding to Section 285BAA of the ITA 1961] requires prescribed reporting entities to furnish statements containing information on crypto-asset transactions.

To ensure compliance and prevent non-reporting or inaccurate reporting, the Finance Bill 2026 proposes penalty provisions. Section 446 of the ITA 2025 is proposed to be amended to levy a penalty of Rs. 200 per day for non-furnishing of the statement and Rs. 50,000 for furnishing inaccurate particulars or failure to correct such inaccuracy.

10.3 Relaxed Prosecution Conditions Under the Black Money Act

[Effective Retrospectively from 01-10-2024]

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, contains stringent penal and prosecution provisions to deal with wilful non-disclosure of foreign income and assets by resident taxpayers. Under Sections 49 and 50, failure to furnish a return of income or willful omission of foreign income or assets in the return attracts prosecution, including rigorous imprisonment and monetary penalties.

Given that many cases involve minor or inadvertent non-disclosures, it is proposed to rationalise the prosecution framework under the Black Money Act. Accordingly, Sections 49 and 50 are proposed to be amended to exclude their applicability in cases where the aggregate value of foreign assets, other than immovable property, does not exceed Rs. 20 lakhs.

10.4 Rationalisation of Prosecution Proceedings

[Applicable from Tax Year 2026-27]

The ITA 2025 contains several provisions under Chapter XXII that impose criminal liability on assesseees and prescribe imprisonment, including rigorous imprisonment, ranging from three months to seven years for various offences. These offences include falsification of books of account, failure to deposit TDS/TCS deducted, furnishing false statements, wilful attempt to evade tax, failure to file returns within the due date, abetment of a false return, removal, concealment or transfer of property to evade tax recovery, non-compliance with certain directions of the Assessing Officer, and related defaults. Sections 473 to 485 lay down various offences attributable to the assessee and specify the nature and manner of punishment, along with the applicable conditions. These provisions also cover time limits, exceptions, thresholds for the amount of tax evaded and the corresponding penalties, penalties for subsequent offences, and related matters.

The Finance Bill 2026 proposes the following changes to the provisions related to prosecutions.

(a) Prosecution on Contravention of the Order During the Search

Section 473 of the ITA 2025 [corresponding to Section 275A of the ITA 1961] prescribes rigorous imprisonment for a term that may extend up to two years, along with a fine, where an assessee contravenes an order passed under Section 247 of the ITA 2025 [corresponding to Section 132 of the ITA, 1961] with the intent to obstruct search proceedings or interfere with evidence. It is proposed to replace rigorous imprisonment with simple imprisonment up to two years, along with a fine.

(b) Prosecution on Failure to Afford a Facility for Inspection During the Search

Section 474 of the ITA 2025 [corresponding to Section 275B of the ITA 1961] prescribes rigorous imprisonment for up to two years, along with a fine, for failure to provide necessary facilities for the inspection of books or documents during search proceedings. It is proposed to substitute rigorous imprisonment with simple imprisonment for up to six months, a fine, or both.

(c) Prosecution on Removal or Concealment of Property to Evade Recovery

Section 475 of the ITA 2025 [corresponding to Section 276 of the ITA 1961] provides for rigorous imprisonment up to two years along with a fine for the removal, concealment, transfer or delivery of property to prevent recovery of tax. It is proposed to replace rigorous imprisonment with simple imprisonment up to two years, along with a fine.

(d) Prosecution for Failure to Deposit TDS

Section 476 of the ITA 2025 [corresponding to Section 276B of the ITA 1961] prescribes rigorous imprisonment ranging from three months to seven years along with a fine if a person fails to pay the tax deducted at source or he fails to deposit TDS relating to winnings from lottery, crossword puzzle, winning from online games, benefit or perquisite arising from business or profession, or sum for transfer of a Virtual Digital Asset (VDA).

Offences relating to failure to pay or ensure payment of tax deducted at source in respect of winnings from lottery or crossword puzzles and benefits or perquisites are proposed to be

fully decriminalised. Further, in cases of winnings from online games and transfers of VDAs that are wholly in kind, such cases are proposed to be excluded from criminal liability.

In other cases, a graded punishment structure is proposed based on the amount of tax involved, which is as follows:

- Simple imprisonment up to 2 years, or fine, or both, where the tax amount exceeds Rs. 50 lakhs.
- Simple imprisonment up to 6 months, or fine, or both, where the tax amount exceeds Rs. 10 lakhs but does not exceed Rs. 50 lakhs.
- Fine only, in all other cases.

(e) Prosecution for Failure to Deposit TCS

Section 477 of the ITA 2025 [corresponding to Section 276BB of the ITA 1961] provides for rigorous imprisonment ranging from three months to seven years, along with a fine for failure to deposit tax collected at source. A graded punishment structure is proposed under section 477, based on the amount of tax involved, which is as follows:

- Simple imprisonment up to 2 years, or fine, or both, where the tax amount exceeds Rs. 50 lakhs.
- Simple imprisonment up to 6 months, or fine, or both, where the tax amount exceeds Rs. 10 lakhs but does not exceed Rs. 50 lakhs.
- Fine only, in all other cases.

(f) Prosecution for Willful Attempt to Evade Tax

Section 478 of the ITA 2025 [corresponding to Section 276C of the ITA 1961] prescribes rigorous imprisonment and a fine for wilful attempt to evade tax. Sub-section (1) of Section 478 deals with a wilful attempt to evade tax. It provides that:

- If a person wilfully attempts to evade tax, penalty, or interest, or underreports income, and the amount involved exceeds Rs. 25 lakh, the punishment is rigorous imprisonment of 6 months to 7 years, along with a fine.
- In all other cases, the punishment is rigorous imprisonment from 3 months to 2 years, along with a fine.

The Finance Bill 2026 has rationalised the above provisions and proposed to provide that the punishment for offences covered under Section 478(1) shall be:

- Simple imprisonment for a term up to two years, or fine, or both, where the amount sought to be evaded or the tax on under-reported income exceeds Rs. 50 lakhs;
- Simple imprisonment for a term up to six months, or fine, or both, where the amount sought to be evaded or the tax on under-reported income exceeds Rs. 10 lakhs but does not exceed Rs. 50 lakh; and
- Fine only, in all other cases.

Further, a graded punishment structure is proposed in sub-section (2) of Section 478, which deals with a wilful attempt to evade payment of tax. The punishment for offences under

Section 478(2) is proposed to be modified as follows:

- Simple imprisonment for a term up to two years, or fine, or both, where the amount sought to be evaded exceeds Rs. 50 lakhs;
- Simple imprisonment for a term up to six months, or fine, or both, where the amount sought to be evaded is Rs. 10 lakhs but does not exceed Rs. 50 lakh and
- Fine only, in all other cases.

(g) Prosecution for Failure to Furnish a Return of Income

Section 479 of the ITA 2025 [corresponding to Section 276CC of the ITA 1961] provides for the prosecution of a person who fails to furnish a return of income, which attracts imprisonment and a fine. Currently, if the tax involved exceeds Rs. 25 lakhs, the punishment is rigorous imprisonment of six months to seven years with a fine; otherwise, it is imprisonment of three months to two years with a fine.

The Finance Bill 2026 has rationalised the threshold and proposed to provide:

- Simple imprisonment for a term up to two years, or fine, or both, where the tax that would have been evaded, had the failure not been detected, exceeds Rs. 50 lakhs;
- Simple imprisonment for a term up to six months, or fine, or both, where the tax that would have been evaded, had the failure not been detected, exceeds Rs. 10 lakhs but does not exceed Rs. 50 lakhs; and
- Fine only, in all other cases.

Section 480 of the ITA 2025 [corresponding to Section 276CCC of the ITA, 1961] deals with prosecution in case the assessee failed to furnish a return of income in search cases. Currently, the section does not specify the threshold for initiating prosecution. The Finance Bill 2026 proposes to introduce a graded punishment structure similar to one proposed in Section 479.

(h) Prosecution for Failure to Produce Books/Comply With Directions

Section 481 of the ITA 2025 [corresponding to Section 276D of the ITA, 1961] criminalises failure to produce books of account or failure to comply with directions of the Assessing Officer, with rigorous imprisonment for up to 1 year and with a fine.

The Finance Bill, 2026, proposes to replace "rigorous imprisonment" with "simple imprisonment" and to reduce the term from one year to up to six months, or impose a fine, or both.

(i) Prosecution for False Statement or Delivery of False Account

Section 482 of the ITA 2025 [corresponding to Section 277 of the ITA, 1961] provides for the prosecution of a person who makes a false statement or delivers a false account, attracting imprisonment and a fine. Currently, if the tax that would have been evaded exceeds Rs. 25 lakh, the punishment is rigorous imprisonment of six months to seven years with a fine; otherwise, imprisonment of three months to two years with a fine.

The Finance Bill, 2026, proposes to rationalise the provision by revising the threshold limits and the term of imprisonment, aligning them with the graded punishment structure of Rs. 50 lakh, Rs. 10–50 lakh, and other cases, as proposed under other prosecution-related provisions.

(j) Prosecution for Falsification of Books of Account

Section 483 of the ITA 2025 [corresponding to Section 277A of the ITA, 1961] prescribes rigorous imprisonment ranging from three months to two years along with a fine for falsification of books of account.

It is proposed to replace "rigorous imprisonment" with "simple imprisonment" and to remove the minimum three-month term of imprisonment.

(k) Prosecution for the Abetment of False Return

Section 484 of the ITA 2025 [corresponding to Section 278 of the ITA, 1961] penalises abetment of false returns or statements with imprisonment and fine. Currently, if the tax, interest, or penalty that would have been evaded exceeds Rs. 25 lakh, the punishment includes rigorous imprisonment of six months to seven years with a fine; otherwise, imprisonment of three months to two years with a fine.

The Finance Bill, 2026, proposes to rationalise the provision by revising the threshold limits and the term of imprisonment, aligning them with the graded punishment structure of Rs. 50 lakh, Rs. 10–50 lakh, and other cases, as proposed under other prosecution-related provisions.

(l) Prosecution for the Second and Subsequent Offences

Section 485 of the ITA 2025 [corresponding to Section 278A of the ITA, 1961] prescribes rigorous imprisonment ranging from six months to seven years along with a fine for repeat offences. The expression "rigorous imprisonment" and the term "seven years" are proposed to be substituted with "simple imprisonment" and "three years".

(m) Prosecution for Disclosure of Confidential Information by Public Servant

Section 494 of the ITA 2025 [corresponding to Section 280 of the ITA 1961] prescribes imprisonment which may extend to six months along with a fine for a public servant who furnishes any information or produces any document in contravention of the provisions of Section 258(3) of the ITA 2025 [corresponding to Section 138 of the ITA 1961]. It is proposed to replace imprisonment with simple imprisonment up to one month, along with a fine.

(n) Corresponding Amendment to the Provisions of the ITA 1961

Corresponding amendments have also been proposed in the relevant prosecution provisions, namely Sections 275A to 278A and Section 280 of ITA 1961, and these amendments shall come into force from 01-03-2026.

10.5 Rationalisation of Penalties into a Fee

[Applicable from Tax Year 2026-27]

(a) Penalty for Non-Furnishing or Furnishing Incorrect Information on Crypto-Asset Transactions

Section 446 of the ITA 2025 [corresponding to Section 271B of the ITA, 1961] provides for the levy of a penalty for failing to have accounts audited or obtain the audit report as required. The penalty is the lower of 0.5% of total sales, turnover, or gross receipts (or gross receipts in the case of a profession) for the relevant tax year, or Rs. 1,50,000.

The penalty for failure to get accounts audited is proposed to be replaced with a fee under Section 428(c), amounting to Rs. 75,000 for delays of up to one month and Rs. 1,50,000 thereafter.

Further, the existing penalty provision under Section 446 is proposed to be omitted and replaced with a separate penalty provision relating to failure to furnish information or to furnish inaccurate information regarding transactions involving crypto assets. The proposed provision levies a penalty of Rs. 200 per day on a person required to furnish a statement relating to crypto-asset transactions for each day of delay in filing such a statement. In addition, a lump-sum penalty of Rs. 50,000 may be imposed where the person furnishes inaccurate information in the statement and fails to rectify the inaccuracy in accordance with Section 509(4) of the ITA 2025 [corresponding to Section 285BAA(4) of the ITA, 1961], or fails to comply with the due diligence requirements prescribed under Section 509(5) of the ITA 2025 [corresponding to Section 285BAA(5) of the ITA, 1961].

(b) Penalty for Failure to Furnish TP Report

Section 447 of the ITA 2025 [corresponding to Section 271BA of the ITA, 1961] provides for the levy of a penalty of Rs. 1,00,000 for failure to furnish the report under Section 172 of the ITA 2025 [corresponding to Section 92E of the ITA, 1961], which relates to an accountant's report in respect of international transactions or specified domestic transactions.

The penalty for failure to furnish a report is proposed to be replaced with a fee under Section 428(d), set at Rs. 50,000 for delays of up to one month and Rs. 1,00,000 thereafter. Accordingly, provisions of Section 447 are proposed to be omitted. Consequential changes are proposed in Section 470 of the ITA 2025 [corresponding to Section 273B of the ITA 1961].

(c) Penalty for Failure to Furnish a Statement of Financial Transactions or a Reportable Account

Section 454 of the ITA 2025 [corresponding to Section 271FA of the ITA, 1961] prescribes a penalty for failure to furnish a statement of financial transactions or a reportable account. Sub-section (1) of Section 454 provides for a penalty of Rs. 500 per day where such statement is not furnished within the due date, while sub-section (2) provides for a penalty of Rs. 1,000 per day where the statement is not furnished within the period specified in a notice issued under Section 508(7) of the ITA 2025 [corresponding to Section 285BA(5) of the ITA, 1961].

It is proposed to convert the penalty under Section 454(1) for failure to furnish the statement of financial transaction or reportable account into a fee under Section 427(3), and accordingly omit sub-section (1). Further, an upper cap of Rs. 1,00,000 is proposed to be introduced on the existing penalty of Rs. 1,000 per day under Section 454(2).

(d) Penalty Amount Increased for Non-Compliance With Section 254 Provisions

[Applicable from 1st April, 2026]

Section 466 of the ITA 2025 (corresponding to Section 272AA of the ITA 1961) states that a penalty is imposed if any person fails to provide information as required by the Income-tax authorities who enter a place of business to collect certain information under Section 254 of the ITA 2025 (corresponding to Section 133B of the ITA 1961). A penalty of Rs. 1,000 may be levied under this provision. It is proposed to increase the penalty from Rs. 1,000 to Rs. 25,000.

10.6 Integration of Penalty Proceedings with Assessment Orders

[Applicable from 1st April, 2026]

Section 471 of the ITA 2025 (corresponding to Section 274 of the ITA 1961) sets forth the procedural safeguards for imposing penalties. No penalty can be levied unless the assessee is provided a reasonable opportunity to be heard. Additionally, prior approval from the Joint Commissioner is required when the penalty exceeds Rs. 10,000 in cases handled by an Income-tax Officer and Rs. 20,000 in cases managed by an Assistant or Deputy Commissioner. If a penalty order is issued by an authority other than the Assessing Officer, a copy of the order must be sent to the Assessing Officer. These provisions ensure due process and supervisory oversight in penalty proceedings.

The Finance Bill, 2026, proposes that the mandatory opportunity to be heard in penalty proceedings will be provided through a show-cause notice. It also proposes inserting sub-sections (4) and (5) into section 471 to fundamentally change how penalties under Section 439 of the ITA 2025 (corresponding to Section 270A of the ITA 1961) are imposed.

For draft assessment orders under Section 275 of the ITA 2025 (corresponding to Section 144C of the ITA 1961), assessments under section 270 of the ITA 2025 (corresponding to Section 143 of the ITA 1961), or reassessments under section 279 of the ITA 2025 (corresponding to Section 147 of the ITA 1961) made on or after 1 April 2027, any penalty under Section 439 shall be incorporated into the draft assessment or the final assessment or reassessment order itself. Further, any reference in the Act to a separate penalty order shall be deemed to refer to such assessment or reassessment order. Additionally, where approval from the Joint Commissioner is obtained to pass the assessment or reassessment order, that approval will be deemed to cover the penalty component as well.

10.7 No Interest on Penalty Demand During the Pendency of the Appeal Proceedings

[Applicable from 1st April, 2026]

Under the existing provisions of Section 411(3) of the ITA 2025 (corresponding to Section 220(2) of the ITA 1961), interest is payable where the amount specified in a notice of demand issued under Section 289 of the ITA 2025 (corresponding to Section 156 of the ITA 1961) is not paid within the time specified in such notice. This interest applies even when the demand arises from a penalty.

To provide relief to taxpayers and rationalise the levy of interest on disputed penalty demands, the Finance Bill, 2026 proposes to substitute Section 411(3) to provide that no interest shall be charged on any demand arising from penalty levied under Section 439 of the ITA 2025 (corresponding to Section 270A of the ITA 1961) for under-reporting or misreporting of income, during the pendency of appellate proceedings. Accordingly, interest shall not be leviable on such penalty demand up to the date of the order passed by the:

- (a) JCIT(A) or CIT(A) under Section 359 of the ITA 2025 (corresponding to Section 250 of the ITA 1961); or
- (b) Appellate Tribunal under Section 363 of the ITA 2025 (corresponding to Section 254 of the ITA 1961), where the assessment or reassessment is made pursuant to directions of the Dispute Resolution Panel under Section 275 of the ITA 2025 (corresponding to Section 144C of the ITA 1961).

Consequential amendments have also been proposed to Section 220 of the ITA 1961 by inserting a *fourth proviso* to Section 220.

11. Miscellaneous

11.1 A Cooperative Society Registered Under the Multi-State Cooperative Societies Act, 2002, Is Included In the Definition of a Cooperative Society

[Applicable from Tax Year 2026–27]

Section 2(32) of the ITA 2025 [Corresponding to Section 2(19) of the ITA 1961] defines a 'co-operative society' as a society registered under the Co-operative Societies Act, 1912, or under any other law in force in a State or Union Territory governing the registration of co-operative societies.

It is proposed to broaden this definition also to cover co-operative societies registered under the Multi-State Co-operative Societies Act, 2002.

11.2 Rationalisation of Schedule XI – Recognised Provident Funds

[Applicable from Tax year 2026–27]

Recognised provident funds are governed by Schedule XI of the ITA 2025, which carries forward several legacy conditions, such as parity-based limits on employer contributions, percentage caps on excess contributions, differentiated limits for employee-shareholders, and rigid investment limits in Government securities.

The Finance Bill 2026 proposes to rationalise Schedule XI by deleting or amending certain provisions in Parts A and C to align the income-tax framework with the present structure under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 and the EPF Scheme, 1952, as well as with section 17(1)(h) of the ITA 2025 which prescribes a unified monetary ceiling of Rs. 7.5 lakh on aggregate employer contributions. The changes proposed in the Finance Bill 2026 are as follows:

(a) Removal of Employer–Employee Contribution Parity [Para 4(c) Omitted]

The earlier requirement that the employer's contribution be in parity with the employee's contribution has been proposed for removal. This condition became redundant after the introduction of the unified monetary ceiling of Rs. 7.5 lakh under Section 17(1)(h). Percentage-based or parity-based limits are no longer relevant.

(b) Recognition Allowed only to EPF-Exempt Establishments [Para 4(f) Substituted]

It is proposed to clarify that only provident funds of establishments that have obtained exemption under section 17 of the EPF Act can apply for recognition under the Income-tax Act. This ensures that tax recognition is available only where the fund is already recognised within the EPF regulatory framework.

(c) Removal of Discretionary Relaxation Based On Salary Threshold [Para 5(4) Omitted]

The earlier provision permitting relaxation of contribution conditions based on a Rs. 500 salary threshold or bonus structure has been proposed to be deleted. Such legacy thresholds are

irrelevant in the current regulatory environment and have been proposed to be replaced by the unified monetary cap.

(d) Omission of 12% of Salary Rule for Employer Contribution [Para 6 Substituted]

The provision that deems employer contributions in excess of 12% of salary taxable has been proposed for removal. This percentage-based test overlapped with the Rs. 7.5 lakh cap and created dual restrictions. Now, taxation applies only to interest credited in excess of the notified rates.

(e) Removal of Special Rule for Employee-Shareholders [Part C, Para 1(D) Omitted]

Separate contribution limits for employees who were also shareholders of the employer company have been proposed for removal. This distinction does not exist under EPF law and creates unnecessary complexity.

(f) Removal Of 50% Cap on Investment in Government Securities [Part C, Para 1(E) Substituted]

The earlier statutory requirement to invest at least 50% of provident fund monies in Government securities has been proposed to be replaced with a general regulatory power. Investment norms will follow EPFO guidelines instead of outdated statutory caps.

11.3 Correction Regarding Income from House Property

[Applicable from Tax Year 2026-27]

Section 22 of the ITA 2025 (corresponding to Section 24 of the ITA 1961) allows deductions while computing income from house property. In the case of a self-occupied property, Section 22(2) of the ITA 2025 (corresponding to Section 24(b) of the ITA 1961) restricts the deduction for interest on borrowed capital to a maximum of Rs. 2 lakh where the property is acquired or constructed using borrowed capital and acquisition or construction is completed within 5 years from the end of the tax year in which capital was borrowed. However, the current provision does not clearly state whether the Rs. 2 lakh limit also covers prior-period interest (i.e., interest for the pre-construction period), creating ambiguity.

Under the 1961 Act, the overall ceiling of Rs. 2 lakh for self-occupied property explicitly included both current-year interest and prior-period interest (allowed in five equal instalments). The absence of an explicit provision in the ITA 2025 created an unintended deviation from the settled position under the earlier law.

It is therefore proposed to amend section 22(2) to explicitly include prior-period interest payable within the aggregate deduction for interest on borrowed capital. This change aligns with the ITA 1961, removes interpretational uncertainty, and ensures that the overall deduction for interest on a self-occupied house property, whether current or prior-period, remains capped at Rs. 2 lakh, thereby providing clarity and certainty for taxpayers.

11.4 Insertion of the Definition of “Commodity Derivative” and “Authorised Person”

[Applicable from Tax Year 2026-27]

The definition of “commodity derivative” was inadvertently omitted in the ITA, 2025. Section 66 of ITA 2025 is proposed to be amended to provide that the term shall have the same meaning

as assigned in Chapter VII of the Finance Act, 2013. Similarly, the term "authorised person", not defined in the Act, is proposed to have the same meaning as assigned in clause (c) of section 2 of the Foreign Exchange Management Act, 1999.

11.5 Clarification of the Repeal and Savings Clause for Deductions Taxable in a Later Year *[Applicable from 1st April, 2026]*

Section 536(2)(h) of the ITA 2025 treats deductions allowed or income excluded under the repealed ITA 1961 as income upon violation of specified conditions. However, it does not cover cases where such amounts become taxable even without violating those conditions. Accordingly, Section 536(2)(h) is proposed to be amended to provide that amounts earlier allowed as a deduction or excluded from income shall be deemed income under the ITA 2025, where such amounts would have been taxable under the repealed Act.

11.6 Reference to Section 144 Omitted From Various Provisions to Avoid Duplication *[Applicable from 1st April, 2026]*

Reference to Section 144 of the ITA 2025 (corresponding to Section 10AA of the ITA 1961) has been proposed for removal from the following sections to avoid redundancy, as this section is already covered in Chapter VIII of the ITA 2025 (Chapter VIA of the ITA 1961):

- (a) Meaning of associated enterprise in Section 162 of ITA 2025 [corresponding to Section 92A of the ITA 1961]
- (b) Meaning of specified domestic transaction in Section 164 of ITA 2025 [corresponding to Section 92BA of the ITA 1961]
- (c) Determination of arm's length price in Section 165 of ITA 2025 [corresponding to Section 92C of the ITA 1961]
- (d) New tax regime for individuals, Hindu undivided family and others in Section 202 of ITA 2025 [corresponding to Section 115BAC of the ITA 1961]
- (e) Assessment under Section 270 of ITA 2025 [corresponding to Section 143 of the ITA 1961].

11.7 Clarification on the Computation of the 60-Day Period for Passing Orders by TPO *[Effective from 01-06-2007]*

Section 92CA of the ITA 1961 empowers the Assessing Officer to refer the computation of arm's length price in respect of an international transaction or specified domestic transaction to the Transfer Pricing Officer (TPO). Section 92CA(3A) provides that TPO shall pass an order at least 60 days prior to the date on which the limitation period for completion of assessment or reassessment under Section 153 or Section 153B, as the case may be, expires. There has been considerable litigation on the manner of computing the period of 60 days specified in Section 92CA(3A), particularly on whether the date of limitation is to be included in such computation.

The Memorandum explaining the Finance Bill, 2026, clarifies that the legislative intent has always been to include the date of limitation while computing the sixty-day period. However, several courts have set aside assessments on the ground that the sixty-day period does not include the limitation date. As a result, assessments lawfully passed by the TPO, where a clear period of sixty days remained for completion of the final assessment under Sections 153 or 153B, as applicable, have been invalidated, notwithstanding the contrary legislative intent.

Accordingly, the Finance Bill 2026 proposes to insert a new sub-section (3AA) to section 92CA to clarify that, notwithstanding any court judgment or order, the sixty-day period for passing an order shall be computed in the following manner:

- (a) Where the limitation period ends on 31 March in a non-leap year, the order may be passed up to 30 January of that year;
- (b) Where the limitation period ends on 31 March in a leap year, the order may be passed up to 31 January; and
- (c) Where the limitation period ends on 31 December of any year, the order may be passed up to 1 November of that year.

11.8 Change in the Time Limit to Pass the Order by the TPO

[Applicable from Tax Year 2026-27]

Section 166(7) [corresponds to Section 92CA(3A) of ITA 1961] mandates the Transfer Pricing Officer (TPO) to pass an order determining the arm's length price (ALP) at least 60 days before the expiry of the limitation period referred to in Section 286/296 [corresponds to Section 153/158BE of ITA 1961].

To simplify the language and provisions, and to avoid interpretational issues and reduce litigation, the Finance Bill, 2026 proposes to replace the existing 60-day time limit. It is proposed that the TPO may pass an order at any time up to one month prior to the month in which the limitation period specified under Section 286 or Section 296 for making an order of assessment, reassessment, recomputation or fresh assessment expires.

Thus, where such a limitation period expires:

- (a) On 31st March of any year, the order shall be passed on or before 31st January of that year; and
- (b) On 31st December of any year, the order shall be passed on or before 31st October of that year.

11.9 Correction of Cross-Reference Error in Clubbing Provisions

[Applicable from Tax Year 2026–27]

Section 99(1)(a)(i) of ITA 2025 [corresponding to Section 64(1)(ii) & its proviso of the ITA 1961] provides for the inclusion, in the total income of an individual, of salary, commission, or similar income received by the spouse from a concern in which the individual has a substantial interest. Section 99(1)(a)(ii) of the ITA 2025 [corresponding to Section 64(1)(iv) of the ITA 1961] provides for the inclusion of income arising to the spouse from assets transferred by the individual.

Section 99(2) of ITA 2025 [corresponding to Section 64(1), *Explanation 3* of the ITA 1961] prescribes the manner for determining the proportion of income to be included in the hands of the individual where assets are transferred. However, due to an inadvertent error, Section 99(2) currently refers to Section 99(1)(a)(i) instead of the correct reference to Section 99(1)(a)(ii).

It is proposed to correct this cross-reference in Section 99(2) to match the intended provision regarding income from transferred assets.

11.10 Consolidation of Provisions Governing the Optional Tax Regime for NRIs on Foreign Exchange Assets

The income of a Non-resident Indian (NRI) is normally taxable in accordance with the provisions applicable to non-residents. However, Sections 212 to 218 of the ITA 2025 (corresponding to Sections 115C to 115-I of the ITA 1961) provide for a special tax regime for the income of NRIs arising from foreign exchange assets. NRIs with such income may opt to be taxed under either the normal provisions or the optional special regime. Under Section 218 of the ITA 2025 (corresponding to Section 115-I of the ITA 1961), an NRI may choose to be governed by the normal provisions of the Act by declaring in the return of income that the special regime shall not apply for the relevant year. Further, Section 217 of the ITA 2025 (corresponding to Section 115H of the ITA 1961) provides that an NRI who opts for this special regime may continue to avail itself of its benefits even after becoming resident in subsequent years. However, such continuation is not available in respect of income derived from shares of an Indian company.

To simplify and rationalise these provisions, the Finance Bill, 2026 proposes to consolidate Sections 217 and 218 into a single Section 217, titled "Application of benefits under Sections 212 to 216". This is a structural consolidation, and no substantive change is proposed in the tax treatment or options available to NRIs.

11.11 Expansion of Penalty Waiver Powers

Section 379(2) of the ITA 2025 [corresponding to Section 245MA(2) of the ITA 1961] is proposed to be amended so as to clarify that the power to waive penalty extends to penalties already imposed as well as penalties that are imposable.

Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026



12. A Scheme is Introduced for Small Taxpayers to Disclose Legacy Foreign Assets by Paying a Specified Tax or Fee

The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, was enacted to address undisclosed foreign income and assets held by resident taxpayers. Upon its introduction, a one-time compliance opportunity was available from 1 July 2015 to 30 September 2015 to voluntarily declare undisclosed foreign assets acquired on or before 31 March 2015, subject to payment of tax and penalty. It has been noted that non-compliance is especially common in legacy or inadvertent non-disclosure situations involving small taxpayers, including holdings resulting from foreign employment benefits (such as ESOPs and RSUs), dormant or low-value foreign bank accounts, savings or insurance policies of returning non-residents, and assets held during overseas assignments. Information obtained through the Automatic Exchange of Information framework also reveals that a substantial number of PAN holders have failed to disclose foreign financial assets.

To promote voluntary compliance and facilitate resolution of such legacy situations, it is proposed to establish a time-limited scheme for declaration of foreign assets and foreign-sourced income, requiring payment of tax or fee according to the nature and source of acquisition, together with provision of limited immunity from penalty and prosecution under the Black Money Act for matters encompassed by the declaration. Matters involving prosecution or the proceeds of crime are proposed to be excluded from the scheme. The scheme shall constitute part of the Finance Bill, 2026 and shall become effective from a date to be notified by the Central Government.

GST



13. Proposal to Amend Section 15 and Section 34 of the CGST Act With Respect to Post-Sale Discount

Under Section 15(3) of the CGST Act, discounts may be excluded from the value of supply if:

- (a) Such discounts are given before or at the time of supply and recorded in the invoice, or
- (b) Such discounts are given after supply, provided:
 - Such discounts were agreed at or before the time of supply and linked to specific invoices, and
 - The recipient reverses the ITC (Input Tax Credit) attributable to the discount.

The requirement that post-supply discounts must be pre-agreed 'at or before' supply and linked to invoices has led to disputes due to strict interpretation by tax authorities.

To address this, it is proposed to amend Section 15(3)(b) of the CGST Act to remove the need for a pre-agreement for post-sale discounts. Post-sale discounts can now be excluded from the taxable value when a credit note is issued, and the recipient reverses the corresponding ITC.

Section 34 of the CGST Act governs the issuance of credit notes and the reversal of ITC by the recipient. It lists specific situations in which a credit note can be issued, such as price reductions or cancellation of supply. However, post-sale discounts were not explicitly included, creating uncertainty for businesses about whether credit notes could be issued for such discounts. The proposed amendment will explicitly add post-sale discounts as a valid reason for issuing credit notes, providing clarity and ensuring that ITC reversal is properly linked to the discount.

14. Proposal to Extend the Benefit of Provisional Refunds to the Inverted Duty Structure (IDS) Refunds

Section 54(6) of the CGST Act currently provides for a provisional refund of up to 90% of the total refund claimed by registered persons, but only in cases of zero-rated supplies.

Section 54(3) of the CGST Act, read with Rule 89(5) of the CGST Rules, permits refund of unutilised input tax credit (ITC) arising from an IDS, though restricted only to ITC on inputs. This position has been upheld by the Supreme Court in the case of *Union of India v. VKC Footsteps India Pvt. Ltd 2021 (52) G.S.T.L. 513 (S.C.)*.

The government has proposed amending Section 54(6) of the CGST Act to allow provisional sanction for 90% of refund claims arising from an inverted duty structure ('IDS'), similar to the mechanism currently applicable to refunds on zero-rated supplies.

Extending the provisional refund mechanism under Section 54(6) to IDS cases marks a major policy shift, placing IDS refunds at par with refunds on zero-rated supplies. This will enable 90% of the refund to be released upfront on a provisional basis, subject to automated risk-based checks, thereby easing the burden on taxpayers while protecting revenue interests.

The proposal to extend provisional refunds to IDS cases is a welcome step that balances taxpayer facilitation with revenue safeguards through risk-based evaluation. It reduces refund pendency, improves liquidity for businesses, and aligns refund administration with the government's broader policy of simplifying GST compliance and ease of doing business.

15. Proposal to Remove the Minimum Threshold Limit of ₹1,000 for GST Refunds on Exports with Payment of Tax

Currently, Section 54(14) of the CGST Act restricts refund claims to amounts less than Rs. 1,000 per tax head. This statutory threshold has created challenges for micro and small exporters, especially in the e-commerce sector and in postal/courier-based exports, where many consignments are low-value and consequently ineligible for refunds.

To address these issues, it is proposed to amend sub-section (14) to exclude refunds on goods exported out of India with payment of tax from the existing threshold.

This reform will align India's GST framework with international best practices, which generally do not impose minimum thresholds for export-related refunds. In doing so, it will enhance the ease of doing business and foster growth in the cross-border e-commerce segment.

16. Proposal to Insert Section 101A(1A) to Empower the Existing Authority as the National Appellate Authority for Appeals Against Advance Ruling

Section 101B(1) of the CGST Act provides that when conflicting advance rulings are issued by Appellate Authorities of two or more States or Union Territories, an appeal may be preferred to the National Appellate Authority (NAA).

Further, Section 101A (1) of the CGST Act provides that the government shall constitute the NAA, which has not been constituted to date.

To address situations, it is proposed to insert sub-section (1A) in Section 101A, w.e.f. 01-04-2026. As a consequence, the existing authority, including the tribunal, can act as NAA for advance ruling appeals. Here, the term 'existing Authority' includes tribunals constituted under any law in force.

In such cases, the provisions of sub-sections (2) to (13) of Section 101A shall not apply where the tribunal has been empowered.

This amendment would ensure that appeals arising from conflicting advance rulings are heard without delay, thereby maintaining continuity and certainty in the appellate mechanism until the NAA is formally constituted.

17. Proposal to Omit the Specific Provision Under Section 13(8)(B) of the IGST Act With Respect to the Determination of Place of Supply of Intermediary Services

Section 13(8)(b) of the IGST Act currently provides that the place of supply of intermediary services shall be the location of the supplier.

A key requirement for any service to qualify as an export of services is that the place of supply must be outside India. However, since intermediary services are deemed to be supplied at the location of the supplier, services provided by an intermediary in India are regarded as domestic supplies even when rendered to a foreign client. Consequently:

- Such services do not qualify as exports;
- They are denied zero-rated treatment;
- GST is levied in India, and export-linked incentives are denied; and
- The tax charged by the intermediary becomes a cost for the foreign recipient, who cannot claim input tax credits, thereby making exports more expensive.

Under the current provisions, supply of intermediary services by an Indian supplier to a customer located outside India is deemed an intra-State supply and made liable to CGST and SGST/UTGST.

The said provision has been subject to judicial scrutiny. While the constitutional validity of Section 13(8) (b) was upheld by the Bombay High Court in the case of *Dharmendra M. Jani v. Union of India* [2023] 151 taxmann.com 91, the Court observed that the levy of CGST and SGST on such transactions was not sustainable.

To address these challenges, it is proposed to omit clause (b) of sub-section (8) of Section 13. Consequent to this omission, the place of supply of intermediary services will be determined under the general rule in Section 13(2), i.e., the location of the recipient of services.

Excise



18. Changes in the Excise Laws

The following changes have been proposed to the Excise Laws:

- (a) The value of Biogas/Compressed Biogas (CBG) and the GST paid thereon, when used in blended CNG, is proposed to be excluded from the transaction value for Central Excise duty. Accordingly, Notification No. 11/2017-Central Excise is proposed to be amended vide Notification No. 02/2026-Central Excise dated 01-02-2026, effective from 02-02-2026. Further, Notification No. 05/2023-Central Excise, which provided a limited exemption on the GST component, is proposed to be withdrawn with effect from the same date.
- (b) It is proposed to amend Notification No. 11/2017-Central Excise dated 30-06-2017 through Notification No. 02/2026-Central Excise dated 01-02-2026, deferring the implementation of additional excise duty of 2 per litre on unblended diesel till 31-03-2028.

Customs



19. Changes in the Customs Laws

The following changes have been proposed to the Customs Laws:

- (a) Section 28(6) of the Customs Act is proposed to be amended 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.
- (b) Proposed to amend sub-section (2) of Section 28J of the Customs Act to provide that an Advance Ruling 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. Also, the proviso to the said sub-section is being substituted to provide that existing rulings may be extended for five years on the applicant's specific request.
- (c) A new Section 56A is proposed to be inserted under the Customs Act to provide that fish harvested by Indian-flagged vessels beyond territorial waters may be brought into India duty-free, and fish landed at foreign ports will be treated as exports. Further, it is also provided to make regulations for the form and manner of making an entry in respect of fish harvested by an Indian-flagged fishing vessel. Accordingly, sub-section (2) of Section 1 of the Customs Act has been proposed to be amended to extend the jurisdiction of the said Act beyond the territorial waters of India, for fishing and fishing-related activities. In Section 2 of the Customs Act, a new clause has been proposed to be inserted to define the expression 'Indian-flagged fishing vessel'.

The above proposal will support the Indian fishermen to fully harness the economic value of marine resources beyond our territorial waters, and will result in the following:

- Fish caught by an Indian fishing vessel in the Exclusive Economic Zone (EEZ) or on the High Seas will be made free of duty.
 - The landing of such fish at a foreign port will be treated as an export of goods.
- (d) Section 67 of the Customs Act has been proposed to be substituted to provide that the owner of warehoused goods may now transfer goods between warehouses subject to prescribed conditions, without requiring prior permission of the proper officer.
 - (e) In clause (b) of Section 84 of the Customs Act, the words "the examination" shall be proposed to be substituted with the words "the custody, examination" to enable the Board to prescribe provisions for the custody of goods imported or to be exported under the regulations framed under this section. Accordingly, the amendment in Rules and Regulations under the Customs Act is also proposed to remove the cap on the value of goods exported through courier.

20. Changes in the Customs Duty

To reduce input costs, boost domestic manufacturing and promote export competitiveness, customs duty on the following items is being reduced with effect from 02.02.2026, unless otherwise specified.

S. No.	Commodity	Rate of Basic Customs Duty	
		From (per cent)	To (per cent)
I	Critical Minerals		
1.	Monazite	2.5%	Nil
II.	Renewable Energy		
2.	Sodium antimonate for use in the manufacture of solar glass	7.5%	Nil
3.	Specified capital goods for use in the manufacture of lithium-ion cells for batteries of Battery Energy Storage System	As Applicable	Nil
III.	Nuclear Energy		
4.	All goods for the generation of nuclear power falling under tariff item 8401 30 00	7.5%	Nil
5.	Control and Protector Absorber Rods, Burnable Absorber Rods for the generation of nuclear power, falling under tariff item 8401 40 00	7.5%	Nil
6.	Goods required for the setting up of specified Nuclear Power Projects, irrespective of their capacity, where the projects have been registered with the Customs Houses concerned on or before 30 th September 2035 in compliance with the Project Import Regulations, 1986	As Applicable	Nil
IV.	Electronics		
7.	Specified goods for use in the manufacture of Microwave Ovens falling under tariff item 8516 50 00	As Applicable	Nil

S. No.	Commodity	Rate of Basic Customs Duty	
		From (per cent)	To (per cent)
V.	Civil Aviation		
8.	Components or parts, including engines, of aircraft, for the manufacture of aircraft and parts of the aircraft	As Applicable	Nil
VI.	Defence Sector		
9.	Raw materials for the manufacture of parts of aircraft for maintenance, repair, or overhauling of aircraft or components or parts of aircraft, including engines, when imported by Public Sector Units under the Ministry of Defence	As Applicable	Nil
VII.	Drugs/Medicines		
10.	17 new drugs/medicines to be added in List 3 appended to TABLE I of notification No. 45/2025-Customs dated 24.10.2025	5%/10%	Nil
11.	7 rare diseases that are part of the National Policy for Rare Disease (NPRD), 2021, to be added in List 22 appended to TABLE I of notification No. 45/2025- Customs dated 24.10.2025 for customs duty exemption on drugs, medicines and food for special medical purposes, when imported for personal use	As Applicable	Nil

Personal Imports (Changes Effective from 01.04.2026)

S. No.	Commodity	Rate of Basic Customs Duty	
		From (per cent)	To (per cent)
1.	All dutiable goods imported for personal use under the Chapter heading 9804	10%/20%	10%

Increase/Modification in Customs Duty [Changes Effective from 02.02.2026]

S. No.	Commodity	Rate of Basic Customs Duty	
		From (per cent)	To (per cent)
I.	Chemicals		
1.	Potassium hydroxide	Nil	7.5%
II.	Umbrella and its parts		
2.	Umbrellas (other than garden umbrellas) covered under tariff items 6601 9100 and 6601 9900	20%	20% or Rs. 60 per piece, whichever is higher
3.	Parts, trimmings and accessories of articles of heading 6601 to 6602	10%	10% or Rs. 25 per kg., whichever is higher

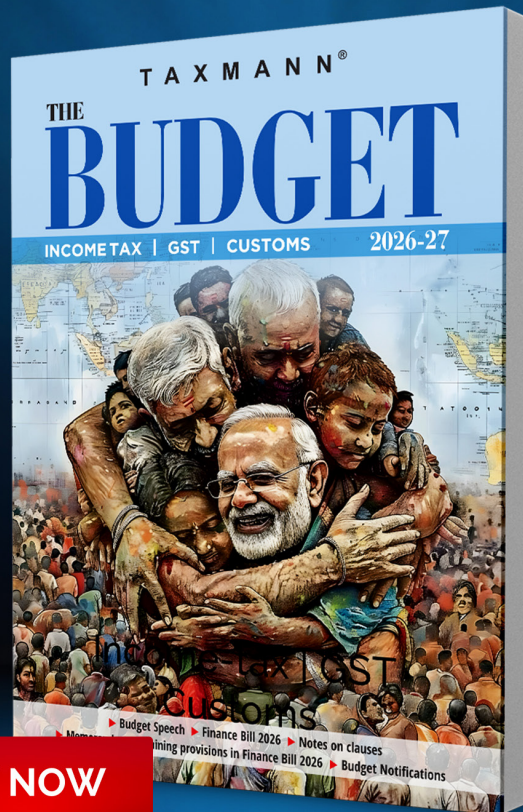
New Tariff Lines Have Been Created w.e.f. 01.05.2026

S. No.	Chapter/Heading/ Sub-Heading/Tariff Item Mentioned in Notification	Commodity	New Tariff Item Being Created w.e.f. 01.05.2026	Rate of Duty
(1)	(2)	(3)	(4)	(5)
1.	0306 19 00	Krill, frozen	0306 19 10	15%
2.	0802 99 00	Pecan Nuts	0802 99 10	30%
3.	0810 40 00	Cranberries, fresh	0810 40 10	10%
4.	0810 40 00	Blueberries, fresh	0810 40 20	10%
5.	0811 90	Cranberries, frozen	0811 90 11 0811 90 91	10%
6.	0811 90	Blueberries, frozen	0811 90 12 0811 90 92	10%
7.	0813 40 90	Cranberries, dried	0813 40 30	10%
8.	0813 40 90	Blueberries, dried	0813 40 40	10%
9.	1207 99 90	Shea Nuts	1207 99 50	15%

New Tariff Lines Have Been Created w.e.f. 01.05.2026				
S. No.	Chapter/Heading/ Sub-Heading/Tariff Item Mentioned in Notification	Commodity	New Tariff Item Being Created w.e.f. 01.05.2026	Rate of Duty
(1)	(2)	(3)	(4)	(5)
10.	2008 93 00	Cranberries, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included	2008 93 10	5%
11.	2008 99	Blueberries, otherwise prepared or preserved, whether or not containing added sugar or other sweetening matter or spirit, not elsewhere specified or included	2008 99 15	10%
12.	2106 90	Other than compound alcoholic preparations of a kind used for the manufacture of beverages, of an alcoholic strength by volume exceeding 0.5% vol., determined at 20 degrees centigrade	2106 90 (other than 2106 90 51)	50%
13.	2202 99	Cranberry products	2202 99 21, 2202 99 31, 2202 99 91	10%
14.	2529 22 00	Acid grade fluorspar containing by weight more than 97% of calcium fluoride	2529 22 10	2.5%
15.	2615 90	Hafnium ores and concentrates	2615 10 10	Nil
16.	2841	Ammonium metavanadate	2841 90 10	2.5%
17.	29	Gibberellic acid	2932 20 40	5%
18.	29	Triethyl orthoformate	2915 90 96	5%
19.	29	Diethyl malonate	2917 19 22	5%

New Tariff Lines Have Been Created w.e.f. 01.05.2026				
S. No.	Chapter/Heading/ Sub-Heading/Tariff Item Mentioned in Notification	Commodity	New Tariff Item Being Created w.e.f. 01.05.2026	Rate of Duty
(1)	(2)	(3)	(4)	(5)
20.	29	DL-2 Aminobutanol	2922 19 30	5%
21.	29	Aceto butyrolactone	2932 20 50	5%
22.	29	Artemisinin	2932 99 30	5%
23.	29	Thymidine	2934 99 50	5%
24.	3302 10	Mixtures of odoriferous substances of a kind used in food or drink industries other than compound alcoholic preparations of a kind used for the manufacture of beverages, of an alcoholic strength by volume exceeding 0.5% vol., determined at 20 degrees centigrade	3302 10 19, 3302 10 99	10%
25.	4104 11 00, 4104 19 00, 4105 10 00, 4106 21 00, 4106 31 00, 4106 91 00	Wet blue leather (hides and skin)	4104 11 10, 4104 19 10, 4105 10 10, 4106 21 10, 4106 31 10, 4106 91 10	Nil
26.	4702	Rayon grade wood pulp	4702 00 10	2.5%
27.	4823 90 90	All goods other than kites	4823 90 90 (Kites fall under new tariff item 4823 90 40)	10%
28.	8101 99 90	Tungsten (wolfram) bars and rods, other than those obtained simply by sintering, profiles, plates, sheets, strip and foil	8101 99 20	5%

New Tariff Lines Have Been Created w.e.f. 01.05.2026				
S. No.	Chapter/Heading/ Sub-Heading/Tariff Item Mentioned in Notification	Commodity	New Tariff Item Being Created w.e.f. 01.05.2026	Rate of Duty
(1)	(2)	(3)	(4)	(5)
29.	8415 90 00	All goods other than indoor or outdoor units of a split-system air conditioner	8415 90 90	10%
30.	8421 99 00	All goods other than the Reverse Osmosis (RO) membrane element for household-type filters	8421 99 90	7.5%
31.	8507 90	Battery separators	8507 90 20	5%
32.	8529 10 99, 8529 90 90	Parts suitable for use solely or principally with the apparatus of headings 8525, 8526 or 8527	8529 10 93, 8529 90 30	10%
33.	8609 00 00	Refrigerated containers	8609 00 10	5%




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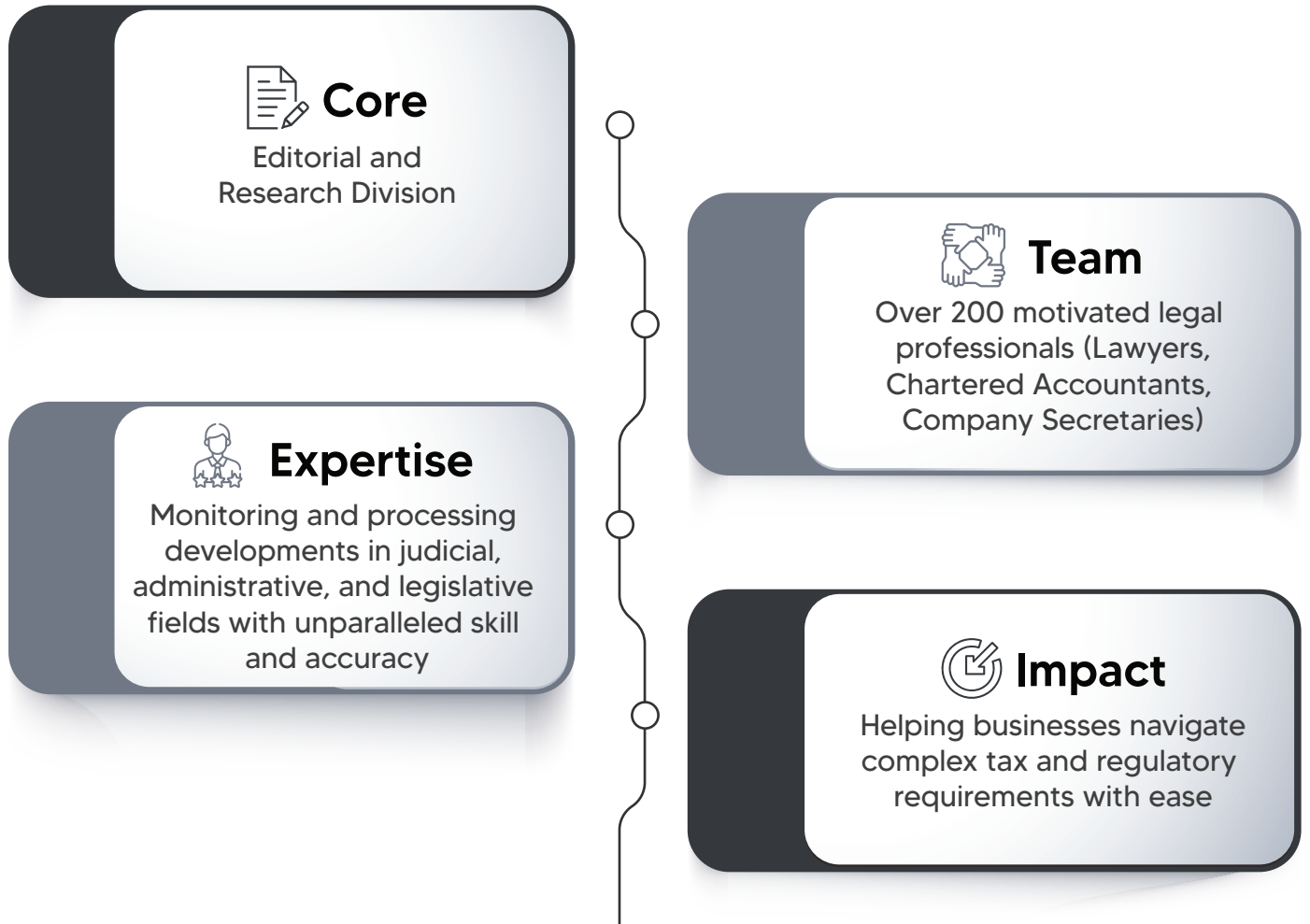
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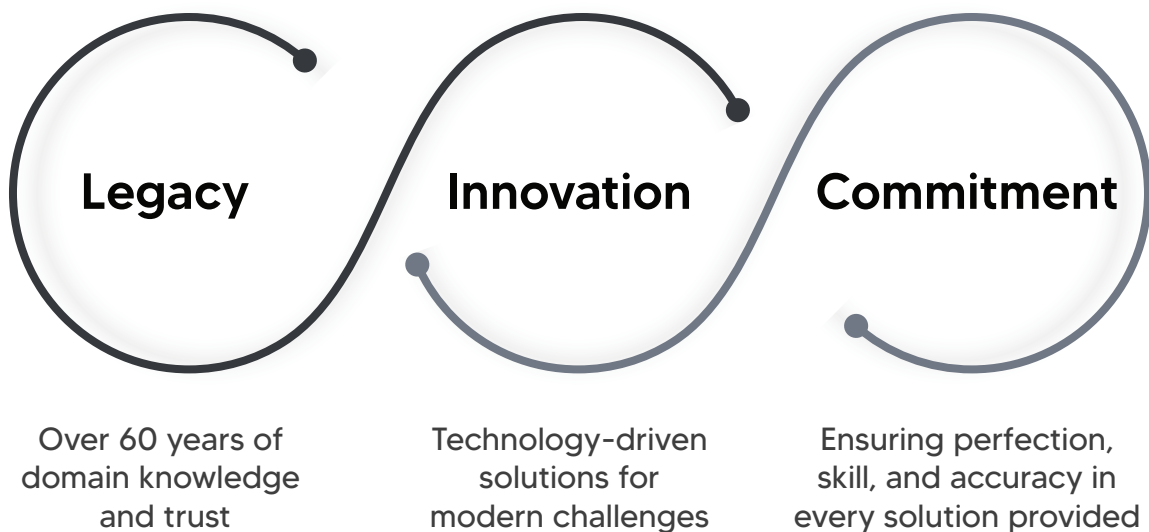
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- ✓ Law practitioner, a fellow member of the Institute of Chartered Accountants of India and also holds a Master's degree in Philosophy
- ✓ PhD from Utkal University, Doctoral Research on Social Accountability Standards for NPOs
- ✓ Author of several best-selling books for professionals, including the recent one titled 'Trust and NGO's Ready Reckoner' by Taxmann
- ✓ Drafted publications for The Institute of Chartered Accountants of India, New Delhi, such as FAQs on GST for NPOs & FAQs on FCRA for NPOs.
- ✓ Has been a faculty and resource person at various national and international forums



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