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UNION BUDGET 2026

Direct Tax Proposals

SIRC, 3rd Feb 2026



Financial Services and GIFT IFSC proposals

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Extension of tax holiday and concessional tax rate for Units in GIFT-IFSC and Offshore Banking Units

- Currently, a 100% tax deduction is available to (i) units in GIFT IFSC and (ii) Offshore Banking Units ('OBU') in Special Economic Zone ('SEZ'), on their specified business income
- Further, for non-tax holiday period, taxes are payable at applicable tax rates in force
- To increase the competitiveness of GIFT IFSC, is proposed to **increase the period of above tax deduction as below –**

Type of entity	Existing tax holiday period	Proposed tax holiday period
A unit in GIFT IFSC	**10 consecutive years out of 15 years***	**20 consecutive tax years out of 25 years***
OBU	**10 consecutive years***	**20 consecutive tax years***

**Beginning from the tax year in which the relevant permission or registration is obtained by the GIFT IFSC unit / OBU under the respective regulations*

- Additional condition inserted stipulating that the GIFT IFSC Unit / OBU, commencing operations after 01-Apr-26, should not be formed by splitting up, reconstruction, reorganisation or transfer a business already in existence in India
- These ***amendments proposed to take effect from 01-Apr-26*** and shall apply in relation to the tax year 2026-27 and subsequent tax years

Eligible income of the above GIFT IFSC units / OBUs shall be taxed at a concessional tax rate of 15% for non-tax holiday period
No change proposed in the existing MAT rate of 9% applicable to companies operating in GIFT IFSC

Applicability of deemed dividend provisions to Finance Companies / units set-up as Treasury Centres in GIFT IFSC

- The Finance Act, 2025 provided a relaxation from deemed dividend provisions to any loan or advance between two group entities where one of the group entities is a Finance Company or a Finance Unit in GIFT IFSC set up as a Global / Regional Treasury Centre, subject to the condition that the parent entity or principal entity of such group is listed on stock exchange in a country / territory outside India
- The Finance Bill now proposes to include an additional condition for the above exclusion, by providing that the other group entity to the transaction shall also be located in a country or territory outside India which shall be a notified jurisdiction
- The terms 'group entity', 'parent entity' and 'principal entity' have also now been specifically defined under the Finance Bill
- This ***amendment is proposed to take effect from 01-Apr-26*** and shall be effective from tax year 2026-27

While the intent of the proposal seems to be to rationalize the provision, further clarifications may be required with respect to transactions between a finance company or a finance unit set up as Treasury Centres in GIFT IFSC where the other group entity is an Indian entity, which may still be subject to deemed dividend provisions

Also pertinent to note that loans / advances (including by the finance companies / finance units) in the ordinary course of business where lending of money is a substantial part of business should still be excluded from the purview of dividend.

Other key proposals for Financial Services sector

Securities Transaction Tax ('STT')

- The Finance Bill seeks to amend Section 98 of the Finance (No.2) Act, 2004 relating to charge of STT to increase the STT rates on certain derivative transactions. These proposals are tabulated below –

Type of derivate trade	Existing STT rate	Proposed STT rate
Sale of option in securities (premium)	0.1%	0.15%
Sale of option in securities on exercise (intrinsic value)	0.125%	0.15%
Sale of futures in securities	0.02%	0.05%

- These ***amendments are proposed to take effect from 01-Apr-26*** and will apply in relation to the Tax Year 2026-2027 and subsequent years



CORPORATE TAX PROPOSALS

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Corporate Taxation

- **MAT Reforms: Shift to Final Tax and Regime Transition** ***(Applicable from TY 2026-27 onwards)***
  - MAT is proposed to be treated as a final tax, with the MAT rate reduced from 15% to 14% of book profits [9% in case of IFSC units]
  - No accumulation of MAT credit will be allowed for any domestic or foreign company for MAT paid on or after 01-Apr-26
  - Domestic companies will be permitted to utilise MAT credit only upon transitioning to the new tax regime, subject to an annual cap of 25 % of the total tax liability - Domestic companies that opt for old regime will not be entitled to any MAT credit set-off
  - Foreign companies will not be allowed any new MAT credit but will be permitted to utilise accumulated MAT credit as on 31 March 2026 to the extent normal tax exceeds MAT in the relevant Tax Year
  - Exemption from MAT to two additional specified businesses of non-residents that are taxed on a presumptive basis
    - business of operation of cruise ships (subject to prescribed conditions) and
    - business of providing services or technology for setting up or supporting electronics manufacturing facilities in India for resident companies

Implications for companies which has already shifted to new regime in the earlier years ?

No similar provisions in respect of AMT as applicable to individuals, AOP, BOI etc. ?

Corporate Taxation

- **Illustrative Example – Utilisation of MAT Credit per the Finance Bill Proposal**

Domestic Companies

- Accumulated MAT credit as on 31-Mar-26: INR 100
- Illustration period: 3 Tax Years

Particulars	Tax Year 2026-27	Tax Year 2027-28	Tax Year 2028-29
Tax Regime	Old Regime	Old Regime	New Regime (Opted)
Normal Tax Liability	INR 120	INR 140	INR 200
MAT Applicability	Yes	Yes	Not Applicable
MAT Liability	INR 100	INR 180	Not Applicable
Final Tax Liability (Normal tax or MAT whichever is higher)	INR 120	INR 180	INR 200
Addition in MAT Credit	Not Applicable	Not Allowed	Not Allowed
MAT Credit Set-off	Not Allowed	Not Applicable	Yes (Restricted)
Maximum MAT Credit Set-off Permitted	–	–	25% of INR 200 = INR 50
MAT Credit Utilised	–	–	INR 50
Closing MAT Credit Balance	INR 100	INR 100	INR 50

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Key takeaway for domestic companies:

MAT credit accumulated up to 31-Mar-26 remains blocked while in the old regime and becomes usable only after shifting to the new regime, subject to a 25% annual cap on tax liability.

Corporate Taxation

- **Illustrative Example – Utilisation of MAT Credit Post Finance Bill Amendments**

Foreign Companies

- Accumulated MAT credit as on 31-Mar-2026: INR 100
- Illustration period: 2 Tax Years

Particulars	Tax Year 2026-27	Tax Year 2027-28
Normal Tax Liability	INR 180	INR 220
MAT Liability	INR 200	INR 180
Final Tax Liability (Normal tax or MAT whichever is higher)	INR 200	INR 220
Addition in MAT Credit	Not Allowed	Not Applicable
MAT Credit Brought Forward	INR 100	INR 100
Condition for Set-off	Normal Tax < MAT	Normal Tax > MAT
MAT Credit Set-off Allowed	Not Applicable	Yes
Maximum Set-off Permitted	–	Difference: INR 40
MAT Credit Utilised	–	INR 40
Closing MAT Credit Balance	INR 100	INR 60

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Key takeaway for foreign companies:

Foreign companies may continue to utilise accumulated MAT credit only in years where normal tax exceeds MAT, limited to the difference between the two.

Corporate Taxation

- **Rationalisation of Due Date for Employee Contribution Deductions** ***(Applicable from TY 2026-27 onwards)***

  - Employee contributions to provident fund, ESI and similar welfare funds to be allowed as a deduction if such amounts are credited to the relevant fund on or before the due date of filing the return of income, thereby aligning the deduction timeline with that applicable to employer contributions

- **Non-allowability of expenses against Dividend Income** ***(Applicable from TY 2026-27 onwards)***

  - Under the current provisions, interest incurred for earning dividend income were allowed as deduction while computing income from other sources subject to threshold of 20%

  - Finance Bill proposes that no deduction shall be allowed while computing taxable dividend income or income from units of mutual funds

This would increase tax burden on investments undertaken through borrowed funds – deterring leveraged investments

Buy Back of Shares

Buy-back of Shares – Capital gains regime introduced *(Applicable from TY 2026-27 onwards)*

- Under the existing provisions, consideration received by a shareholder on buy-back of shares by a company is taxed as dividend income
- It is proposed to rationalise the taxation of share buy-backs by providing that consideration received on buy-back shall be chargeable to tax under the head "Capital gains" instead of being treated as dividend income
- The below table summarizes effective rate of Capital Gains in hands of various categories of shareholders:

Sr. No.	Type of Capital Gain	Promoter is Domestic Company	Promoter is other than a Domestic Company	Non-Promoter
Buyback of Listed Equity Shares				
1	Short-term Capital Gains	22% *(20% + 2%*)*	30% *(20% + 10%*)*	20%
2	Long-term Capital Gains	22% *(12.5% + 9.5%*)*	30% *(12.5% + 17.5%*)*	12.5%
Buyback of Shares other than Listed Equity Shares				
1	Short-term Capital Gains	22%	This will depend on Applicable Rates	
2	Long-term Capital Gains	22% (12.5% + 9.5%*)	30% *(12.5% + 17.5%*)*	12.5%

**Additional Income-tax*

- Term 'Promoter' shall mean:
  - For Listed Companies: As per SEBI (Buy-Back of Securities) Regulations, 2018
  - For Unlisted Companies: As per Companies Act, 2013 or a person holding more than 10% of the shareholding directly or indirectly

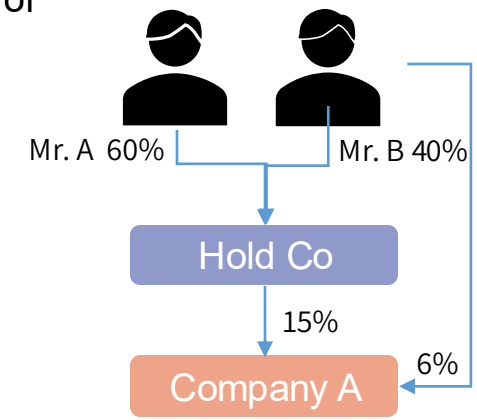
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For the above table, it is presumed that domestic company has opted for new tax regime. Further, the above rates are subject to applicable rate of surcharge and cess.

Buy Back of Shares

Few Considerations

1. No specific exclusion under definition of dividend in respect to buy back undertaken by companies ? (erstwhile IT Act, 1961 provided specific exclusion for buy back undertaken under the provisions of Companies Act) – Could absence of specific exclusion in the definition of dividend may lead to unwarranted litigation on characterization
2. Deemed characterization as capital gains under the Act – interplay with the DTAA where the DTAA typically offers a lower rate of taxation in case of dividends
3. Applicability of surcharge on *additional income tax* in case of buy back ? – Typically, surcharge is capped to 15% in case of capital gains income taxable under Section 112, 112A and 111A of the Act, 1961
4. The definition of promoter includes a person holding 10% or more directly or indirectly - Computation mechanism for "indirect" holding – proportionate shareholding v. control



Whether Mr. B will be regarded as a promoter in case where Company A undertakes a buyback of his 6% shareholding ?

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Capital Gains

Sovereign Gold Bonds ***(Applicable from TY 2026-27 onwards)***

- Under the current regime, capital gains arising to an individual from redemption of Sovereign Gold Bonds 2015 issued by the RBI is exempt.
- Finance Bill proposes to amend that Capital Gains arising from redemption of Sovereign Gold Bonds issued by the RBI under the Sovereign Gold Bond Scheme, 2015 or any subsequent scheme shall be exempt only where:
  - Such bonds are subscribed to by an individual at the time of original issue and
  - Held continuously until redemption on maturity

Benefit extended to all schemes issued post 2015 – However withdrawal of exemption in case of redemption where the Bonds where are acquired through secondary acquisition or in case of pre-mature redemption of bonds

House Property

- **Clarificatory amendments under the head 'House property'** ***(Applicable from TY 2026-27 onwards)***

  - Under the existing provisions of the IT Act, 1961, a taxpayer was allowed deduction of interest on housing loan for a self-occupied house property, including post-construction period interest as well as pre-construction period interest, subject to an overall ceiling of INR 2,00,000

  - Under the corresponding provision of the IT Act, 2025, the ceiling of INR 2,00,000 was specifically prescribed only for interest payable post construction. There was no explicit restriction on the deduction of pro-rated pre-construction period interest (1/5th of the pre-construction interest allowed as deduction over a period of 5 years), which could result in a higher overall deduction of interest expense

  - The proposed amendment seeks to align the provisions of the IT Act, 2025 with those of the IT Act 1961 by clarifying that the aggregate deduction in respect of interest on borrowed capital, including pre-construction period interest, shall be subject to the overall ceiling limit of INR 2,00,000

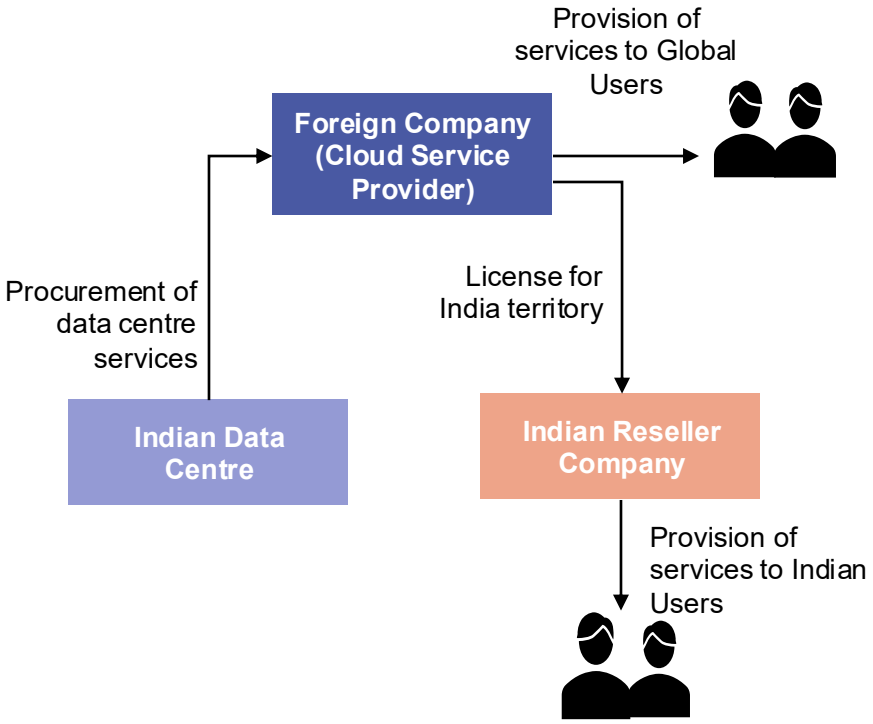
  - Similar clarificatory amendment has also been made in section 21(5) of the IT Act 2025 to clarify that annual value of property held as stock-in-trade to be taken as nil upto two years from the end of the tax year in which certificate of completion of construction is obtained from the competent authority

This is to align with the existing provisions of IT Act, 2025 with the provisions of erstwhile IT Act, 1961

Exemption for Specified Incomes of Foreign Companies / Individuals

Exemption for notified foreign companies procuring data centre services from India

- Financial Bill proposes to exempt notified foreign companies on income accruing or arising in India from procuring data centre services from a data centre subject to the following conditions:
  - The foreign company does not own or operate any of the physical infrastructure or any resources of the specified data centre;
  - Sales by the foreign entity to users in India is made through an Indian reseller company;
  - The data centre is owned and operated by an Indian company and is set up under an approved scheme and is notified by the Central Government.
- The above ***amendment will take effect from Tax Year 2026-27,*** and the exemption is available up to Tax Year ending 2046-47, i.e., for a period of 20 years



"Presence of a data centre in India could have give rise to a tax exposure on account a permanent establishment for the foreign company in India - the proposed provision expressly clarifies such income to be exempt aligning with the government's intent to provide clarity and avoid litigation"

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Exemption for Specified Incomes of Foreign Companies / Individuals

- **Exemption for a foreign company on income arising on account of provision of capital equipment etc. for electronic manufacturing in India**
  - Finance Bill proposes to provide exemption to a foreign company providing capital goods, equipment or tooling to a resident contract manufacturer located in a custom bonded area and producing electronic goods on behalf of such foreign company for a consideration
  - The exemption is subject to the condition that the ownership of the capital goods, equipment etc. provided shall be with the foreign company and the capital goods, equipment etc. shall be under the control and direction of the contract manufacturer in India
  - The ***amendment will take effect from Tax Year 2026-27***, and the exemption shall be available up to Tax Year 2030-31

Exemption for Specified Incomes of Foreign Companies / Individuals

Exemption of foreign accrued income for non-resident individuals coming to India for rendering services under any notified scheme in India

- Finance Bill proposes to exempt income of an individual who renders services in India in connection with any Scheme notified by the Central Government subject to the below conditions:
  - The income accrues or arises outside India and is not deemed to accrue or arise in India;
  - The individual has been a non-resident for 5 consecutive Tax Years immediately preceding the Tax Year in which he visits India for the first time for rendering such services;
  - The exemption is available for a period of 5 years commencing from the first Tax Year in which the individual visits India in connection with the Scheme
- **The *amendment will be effective from the Tax Year 2026-27***

Exemption for foreign expats, coming to India and rendering services in India under a scheme notified by the Central Government from their non-India source income

Return of Income

Extension of timeline in filing return of Income and revised return ***[Applicable for 2026-27]***

Particulars	Existing due date	Proposed due date
Income tax return		
• Taxpayers having PGBP income not liable to audit • Partners of firm (where firm is not required to be audited)	31st July	31st August
Revised income tax return (from the end of relevant Tax Year)	9 months	12 months with an additional fee upto INR 5,000

Expansion of scope for filing of updated return ***[Applicable for TY 2026-27]***

- It is proposed that a taxpayer can now file an updated return that results in a reduction of the reported loss, where the original return was a loss return
- Taxpayers can also file updated returns even after reassessment proceedings have commenced, by paying an additional tax of 10%

Rationalization of Prosecution Proceedings

- **Current Position:** Various provisions impose criminal liability on assessee and prescribes imprisonment including [illegible] imprisonment which span from 3 months to 7 years for various offences.

- **Objective of Budget Proposal:** Amend Section 473 to 485 & 494 of the IT Act, 2025 to decriminalize and make the punishment for the offences proportionate to the crimes.

- **Principles followed by the Government in the proposed decriminalization:**
  - Nature of punishment is changed from rigorous imprisonment to simple imprisonment
  - Maximum punishment is proposed to be limited to 2 years from current period of 7 years and for the subsequent offences, it is reduced to 3 years from current period of 7 years
  - Wherever punishment of offences is prescribed based on certain grading of amount of tax evaded, in such cases new grading of offences and its corresponding punishment is prescribed
  - Where amount of tax evaded does not exceed ten lakh rupees, punishment of only fine is prescribed
  - Imposition of fine is introduced in lieu of or in addition of imprisonment
  - Certain offences are fully decriminalized

Rationalization of Prosecution Proceedings

Proposal for rationalization of Prosecution Proceedings:

Sr. No.	Income-tax Act, 1961 Section No.	Income-tax Act, 2025 Section No.	Section deals with
1	275A	473	Contravention of order during search action
2	275B	474	Failure to afford facility for inspection of books of accounts during search
3	276	475	Removal, concealment, transfer or delivery of property to prevent tax recovery
4	276B	476	Failure to pay tax to credit of Central Government under Chapter XIX-B
5	276BB	477	Failure to pay tax collected at source
6	276C	478	Wilful attempt to evade tax, etc.
7	276CC	479	Failure to furnish returns of income
8	276CCC	480	Failure to furnish return of income in search cases
9	276D	481	Failure to produce accounts and documents
10	277	482	False statement in verification, etc
11	277A	483	Falsification of books of account or document, etc
12	278	484	Abetment of false return, etc
13	278A	485	Punishment for second and subsequent offences
14	280	494	Disclosure of particulars by public servants

Rationalization of Prosecution Proceedings

- **What happens to the Prosecution Provisions of Income-tax Act, 1961?**
  - Similar amendments are also proposed in corresponding provisions of Income-tax Act, 1961 (i.e. Section 275A to 278A and 280)

- **Effective Date of Proposed Amendments:**
  - **Amendments in IT Act, 2025:** Amendments will take effect from ***1st day of April 2026***
  - **Amendments in IT Act, 1961:** Amendments will take effect from ***1st day of March 2026***

Penalties

Sr. No.	Particulars	As per IT Act, 2025	Proposed changes
1	Penalty for failure in respect of Tax Audit	Penalty is lower of: • 0.5% of the total sales, turnover or gross receipts, in the business, or the gross receipts in the profession, for such tax year or years; or • INR 1,50,000	**Fees** as under: • INR 75,000 where the delay is up to one month; and • INR 1,50,000 where the delay exceeds one month
2	Penalty for non-furnishing of accountant report in case of Transfer Pricing	Penalty of INR 1,00,000	Fees as under: • INR 50,000 where the delay is up to one month; and • INR 1,00,000 where the delay exceeds one month
3	Penalty for non-furnishing of statement or furnishing inaccurate information on transaction of crypto asset	Currently, no penalty is provided	• Penalty for non-furnishing of statement: INR 200 per day for the period of default • Penalty for furnishing inaccurate particulars: INR 50,000

Penalties

Sr. No.	Particulars	As per IT Act, 2025	Proposed changes
4	Penalty for failure to furnish Statement of Financial Transaction (SFT)	• Penalty for failure to furnish SFT: Penalty of INR 500 is levied for everyday during which such failure continues	• Furnishing of statement: Fee of INR 200 per day, subject to a maximum of INR 1,00,000
		• Penalty for failure to furnish SFT against notice issued: Penalty of INR 1,000 per day is levied for every day during which such failure continues	• Furnishing statement against notice issued: Penalty of INR 1,000 per day subject to a maximum of INR 1,00,000
5	Expansion in scope of immunity from penalty and prosecution	Section 440 of the IT Act, 2025 allows an Assessee to seek immunity from the imposition of penalty and initiation of prosecution proceedings relating to underreporting of income, if specified conditions are met	Proposed to expand the scope of immunity to include cases of under-reporting of income arising due to misreporting

Characterization of penalties as Fines – Can now such fines paid be also claimed as a deduction ?

Tax Deducted at Source ('TDS')

Amendments with respect to TDS *[With effect from 01-Apr-26]*

- **Inclusion of Manpower Supply within the definition of 'Work':**
  - Finance Bill proposes to clarify that 'supply of manpower' is covered within the ambit of 'work';
  - Therefore, payments for supply of manpower services to be subject to TDS at the rate of 1% / 2%

- **No TDS in respect of interest on compensation awarded by Motor Accidents Claims Tribunal to an Individual:**
  - Finance Bill proposes that no tax to be deducted in respect of interest on compensation awarded by the Motor Accident Claims Tribunal to an Individual

- **No TDS on interest income paid to co-operative society engaged in the business of banking:**
  - Finance Bill proposes that no tax to be deducted on interest income credited or paid to any co-operative society engaged in the business of banking

- **Filing of Declaration for No deduction of Tax at Source to Income-tax Authority:**
  - In order to reduce compliance burden for payers making specified payments as per section 393(6) of IT Act, 2025, the timeline for submitting declarations (received by the payers) to the prescribed Income-tax Authority is proposed to be revised from monthly basis to quarterly basis

Tax Deducted at Source ('TDS')

Amendments with respect to TDS ***[With effect from 01-Apr-27]***

- **Filing of Declaration for No Deduction of Tax at Source to Depository:**
  - Investors need to submit separate declarations with respect to non-withholding of TDS on income like dividends, interest on securities etc. to each payer;
  - To reduce this burden, investors holding units or listed securities with depository may now file the declaration directly with the depository, which in turn shall share the declaration with the relevant payers

Provisions targeted at simplication of TDS / TCS provisions

Rationalisation of rates for TCS (1/2)

Proposal for rationalization of Tax Collection at Source (TCS) on LRS & Overseas Tour Package:

[Effective from 01-Apr-26]

Sr. No.	Nature of receipt	Current Rate	Proposed Rate
1	**Liberalised Remittance Scheme (LRS):**		
	For all remittances: Up to INR 10 lakhs	NIL	NIL
	For education or medical treatment: Exceeding INR 10 lakhs	5%	2%
	For all other purposes: Exceeding INR 10 lakhs	20%	20%
2	**Overseas Tour Package*:**		
	Up to INR 10 lakhs	5%	2%
	Exceeding INR 10 lakhs	20%	2%

* Any tour package which offers visit to a country outside India and includes expenses for travel or hotel stay or boarding or lodging or any such similar expenditure

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Rationalisation of rates for TCS (2/2)

Proposal for rationalization of TCS on sale of certain goods: *[Effective from 01-Apr-26]*

Sr. No.	Nature of receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption	1%	2%
2	Sale of tendu leaves	5%	2%
3	Sale of Scrap	1%	2%
4	Sale of minerals, being coal or lignite or iron ore	1%	2%

Other TDS / TCS Provisions

- **Streamlining the process for Lower or Nil TDS / TCS certificate** ***[Effective from 01-Apr-26]***
  - Section 395 of the IT Act, 2025 allows taxpayers to apply to the Assessing Officer for a lower or nil TDS / TCS certificate;
  - To ease compliance for small taxpayers, it is proposed to allow payees to submit these applications electronically to the prescribed tax authority

- **Simplification of TDS compliance for Property Buyers** ***[Effective from 01-Oct-26]***
  - As per the existing provisions, buyers are not required to obtain a TAN when deducting TDS on the purchase of immovable property from a resident, but a TAN is mandatory when the seller is a non-resident;
  - In order to ease compliance for resident individuals and HUFs, the Finance Bill proposes to exempt them from obtaining TAN for deducting TDS on any consideration paid for the purchase of immovable property

- **Guidelines to be Binding on tax authorities & Deductors / Collectors** ***[Effective from 01-Apr-26]***
  - The current law allows the Board (with prior Central Government approval) to issue guidelines for resolving TDS / TCS implementation issues, but these are not explicitly binding;
  - To align with the IT Act, 1961 the amendment proposes that such guidelines will now be binding on income-tax authorities and on persons required to deduct / collect tax

Repeal and Savings Provisions

- **Clarification on repeal and savings provisions**
  - Existing repeal and savings provisions provide for taxation of amounts claimed as deduction or exempt under the repealed Income-tax Act, 1961 on violation of the conditions subject to which such deduction or exemption was claimed
  - To provide clarity, the Finance Bill proposes to also tax deductions or exemptions claimed under the repealed Income-tax Act, 1961 without any conditions provided they would have been taxable under the repealed Income-tax Act, 1961, had it not been repealed.
  - This could include, for instance, recovery of bad debts, remission or cessation of trading liability under section 41 of the repealed Income-tax Act, 1961
  - ***Amendment will take effect from the Tax Year 2026-27***



Assessment

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Assessment

- **Integrated Assessment & Penalty:** Assessment and penalty proceedings to be combined into a single order, no interest on penalty during appeal before the first appellate authority *[Applicable on all orders passed on or after 1 April 2027]*

- **Reduced Pre-deposit requirement:** Mandatory pre-payment of demand reduced from 20% to 10%, which shall be based only on the core tax demand

Retrospective clarifications to address interpretational and technical issues

- **DIN errors** ***[Effective from 01-Oct-19]***

    - Minor mistakes or omissions in quoting the DIN will not invalidate an assessment, provided the order references the DIN

Assessment

Retrospective clarifications to address interpretational and technical issues

Clarification on timeline for completion of assessment in DRP cases ***[Effective from 01-Apr-09 (Search cases: 01-Oct-09)]***

- There has been significant litigation (Shelf Drilling) on whether the time period prescribed for completion DRP proceedings should be subsumed within the general timeline for completion of assessments
- It has now been retrospectively clarified that:
  - General timeline for completion of assessment applies up to the Draft Assessment Order stage
  - Once the matter proceeds to the DRP, the specific timelines prescribed for DRP cases apply for finalization of assessment

JAO vs FAO controversy ***[Effective from 01-Apr-21]***

- Reassessment proceedings clarified to be deemed to be initiated only by a non-faceless AO, overriding prior judicial precedents

Assessment

Retrospective clarifications to address interpretational and technical issues

Clarification on timeline for passing TP Order

- The Finance Bill clarifies that the 'date of limitation' must be included when computing the 60-day period for passing Transfer Pricing (TP) assessment orders, overturning earlier rulings (e.g., *Pfizer*) that had quashed orders passed on the date of limitation itself.

- Timelines for issuing a TP assessment order now been clarified as below:

Act	Period of limitation expiring on	Last date of passing TP order
Under IT Act, 1961	31st March (non-leap year)	30th January
	31st March (leap year)	31st January
	31st December	1st November
Under IT Act, 2025	31st March	31st January
	31st December	31st October



Transfer Pricing

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Transfer Pricing - Safe Harbour and APA

Safe Harbour Reforms for IT service sector

- Hon'ble FM announced reforms in the Safe Harbour regime, merging software development, IT enabled, KPO, and contract R&D services into a single 'IT services' category with a uniform margin of 15.5%.

Services	Existing Safe Harbour rate	Proposed Safe Harbour rate
Software development services and IT enabled services	• transaction value up to INR 100 crore – **17%** • transaction value from INR 100 to INR 300 crore **- 18%**	• All under single category of IT services - transaction value upto 2,000 crore – 15.5%
Knowledge process outsourcing	transaction value upto INR 300 crore - • **24%** if employee cost exceeds 60% of operating expense • **21%** if employee cost is from 40% to 60% of operating expense • **18%** if employee cost upto 40% of operating expense	
Contract R&D services for software development	• transaction value upto 300 crore **–24%**	

- IT services Safe Harbour approvals will now use an automated rule-based mechanism (no tax officer involvement) and be available for 5 years at taxpayers' option
- New Safe Harbour proposed for data centre services providers with a 15% margin.

Transfer Pricing - Safe Harbour and APA

Advance Pricing Agreements ('APA')

- Hon'ble FM during budget speech announced **fast tracked Unilateral APA** process for IT service companies, with target **timeline of 2 year** for conclusion, extendable by additional six months at the taxpayer's request.
- Modified return framework streamlined – Now AEs of APA signatory entities can also file modified returns.

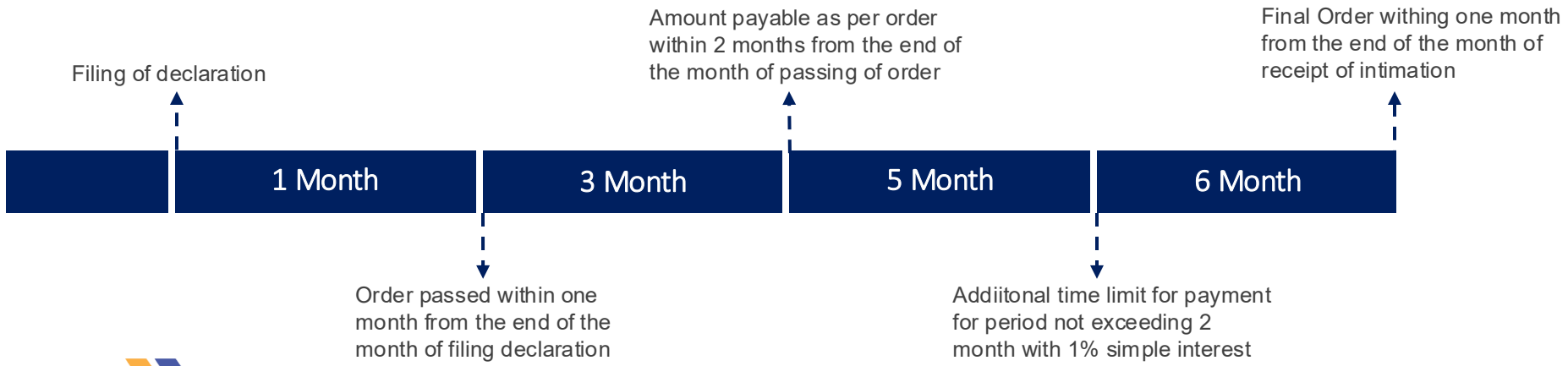


THE FOREIGN ASSETS OF SMALL TAXPAYERS DISCLOSURE SCHEME, 2026

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The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

- Amnesty Scheme / one-time window for small taxpayers to voluntarily disclose undisclosed foreign assets or foreign income for cases where returns not filed or assets / income not disclosed or income escaped assessment
- Apply for assets / income pertaining to period on or before 31-Mar-26
- Following eligible applicants may claim relief under the Scheme:
  - Residents in India under Section 6 of the IT Act, 1961 or
  - Non-residents / not ordinarily residents under Section 6(6) of the IT Act, 1961, who were residents in the year in which the income arose, or the foreign asset was acquired.
- **Process and time-lines under the Scheme –**



The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

Table 1 – Amount payable by assessee

Sr. No.	Type of assets or income	Amount payable	Conditions
1	Undisclosed Foreign Asset or Undisclosed Foreign Income	• 30% of the fair market value of the undisclosed foreign asset as on 31-Mar-26 and / or 30% of the undisclosed foreign income as the case may be; and • Additional amount equal to 100% of tax calculated above.	Aggregate value of Undisclosed Foreign Asset and Income does not exceed INR 1,00,00,000.
2	Foreign Asset acquired from income accruing or arising outside India by non-resident, but such assets were not declared in return of income; or Foreign Asset located outside India acquired from tax paid income in India.	• A fee of INR 1,00,000.	Aggregate value of Asset located outside India* does not exceed INR 5,00,00,000.

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Value of asset means fair market value of the asset as may be prescribed

The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

- **Cases where the benefit of Scheme is not available:**
  - Assets or income represent proceeds of crime under Prevention of Money-laundering Act, 2002
  - Any undisclosed asset or income for which assessment under the Black Money Act has already been completed

- **Immunity from initiation of proceedings once valid declaration and payment made**
- **Others**
  - The Scheme shall come into force from such date as may be notified by the Central Government in the Official Gazette
  - In respect of income or asset declared, no rectification or revision under Black Money Act shall be allowed and assessee shall not claim any set-off in any appeal shall be available in respect of declared asset / income or any amount paid under the Scheme. Additionally, no refund can be claimed after payment of the amount under the Scheme
  - AO to consider the declarations made under the scheme for ongoing assessments



BLACK MONEY ACT

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Black Money Act

- Sections 49 and 50 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ('Black Money Act') provide for prosecution for residents who at any time during the previous year, having held any asset (including financial interest in any entity) located outside India as a beneficial owner or otherwise, or was a beneficiary of such asset or had income from a source outside India and wilfully fails to furnish the return of income or wilfully omits to disclose such foreign income or assets (owned or where there is beneficial interest) in the return of income

- It is proposed to introduce a proviso to section 49 and section 50 whereby the prosecution provisions for contravention of section 49 and section 50 as mentioned above shall not apply in respect of an asset or assets (other than immovable property) where the aggregate value of such asset or assets does not exceed INR 20,00,000

- *These amendments shall take effect **retrospectively** from 01-Oct-24.*



OTHER DIRECT TAX PROPOSALS

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Other Direct Tax Proposals

- **Allowability of SEZ deduction under the default new tax regime** ***[Effective from Tax Year 2026-27]***
  - Finance Bill proposes to allow deduction to individuals, HUFs, AOP / BOI and artificial juridical persons in respect of export profits of their eligible SEZ unit while computing total income under the default new tax regime
  - Such deduction in respect of export profits of eligible SEZ units is currently not permitted under the new tax regime

- **Rationalisation of Tonnage Tax Scheme (TTS) for inland vessels** ***[Effective from Tax Year 2026-27]***
  - The benefit of tonnage tax scheme was extended to Inland Vessels vide Finance Act, 2025 - Considering that Inland Vessels are registered under the Inland Vessels Act, 2021 and governed by the Inland Waterways Authority of India, amendments have been proposed to align the provisions of the tonnage tax scheme for Inland Vessels

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