Union Budget

2026

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Introduction

Budget 2026 has been presented by Hon’ble Finance Minister Mrs. Nirmala Sitaraman. This is her consecutive 9th Budget presented in NDA Government. GDP growth rate in the budget has been projected at 7%. In the budget various announcements have been made. The budget focuses on three ‘Kartavya’.

First - Accelerate & sustain economic growth through enhanced productivity and competitiveness
Second - Fulfill aspirations and build capacity, making people strong partners in prosperity
And Third - Sabka Sath, Sabka Vikas - ensure access to resources and opportunities for all

In the Budget Hon’ble Finance Minister has proposed various amendments in Direct and Indirect taxes. This budget was mainly focused on rationalization of provisions and reducing unnecessary compliances and litigation. Various amendments have been proposed to achieve this purpose like, integration of assessment and penalty order, reducing block years for third person only to those years for which information was found.

In order to promote investment in Data centres, Artificial intelligence and electronic equipments various exemptions and tax holidays have been announced in the budget. Various amendments have also been made in TDS and TCS. Also, certain relaxations have been given in penalty and prosecution provisions,.

This budget has also brought various provisions to clarify and rationalize the provisions of income tax. One of the important clarification is notice issued u/s 148A / 148 by JAO is valid. Further, manpower supply has been included in the definition of work to remove ambiguity regarding TDS on such services.

In this write up we have given brief yet meaningful summary of the amendments proposed through this budget in direct taxes. Hope you will find it of use in your business endeavour.

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1. Amendments for Individuals

Income Tax Rates
There is no change in Income tax slab rates. it remains same as that of last year.
New Tax Regime shall be default regime unless opt out by assessee. Slab rate in new regime is as under:
Up to ₹4L: Nil | ₹4-8L: 5% | ₹8-12L: 10% | ₹12-16L: 15% | ₹16-20L: 20% | ₹20-24L: 25% | Above ₹24L: 30%

New Income Tax Act, 2025
New Income Tax Act shall be effective from April 1, 2026. Simplified forms & rules shall be notified shortly.

Interest on claim awarded by Motor Accident Compensation Tribunal (MACT)

Any Interest on claim awarded by MACT to individual or his legal heir is exempt from tax. No TDS shall be deducted on interest on claim awarded to individual. However, TDS shall be deducted on interest on claim awarded to a person other than individual if amount of interest exceeds Rs. 50,000/-.

TCS Rates Reduced for individuals:

TCS on Overseas tour packages proposed to reduced from Existing 5%/20% to 2% without any threshold limit.

TCS on remittance for Education & Medical under LRS proposed to reduced from 5% to 2%.

Relaxation in furnishing Form 15G/15H
Investors earning income from multiple units and securities need to submit separate form 15G/15H to all entities thus become tedious and difficult. In order to reduce compliance burden, it is proposed to allow filing of the declaration to the depository which in turn shall provide such declaration to the person responsible for paying such income. Also time limit for furnishing the declaration received by them to the prescribed Income tax authority have been changed from monthly basis to quarterly basis.

1. Amendments for Individuals

Relaxation from obtaining TAN in case of purchase of Immovable Property from Non-Resident
w.e.f. 01.10.26 resident individual or Hindu undivided family, is not required to obtain TAN to deduct TDS on consideration on transfer of any immovable property from Non resident

Disability Pension to Armed Forces personnel
disability pension including both service & disability elements exempt if invalided out of Armed forces on account of bodily disability caused by / during service. Exempted is also extended to paramilitary personnel. In earlier years the said pension was exempt through clarificatory circulars.

Lower/Nil TDS Certificate - Automated Process

For issuing Lower/ Nil TDS Certificate for small taxpayers. a rule-based automated process is proposed to introduced instead of filing an application with the assessing officer.

2. Amendments for Corporate entities

Corporate Tax Rates

Tax rate on companies remains unchanged. Tax as applicable for last year shall be applicable for this year.

Amendment in Minimum Alternate Tax (MAT)

MAT rate is proposed to reduced from 15% to 14%.

MAT if higher than normal tax will be final tax and no credit accumulation shall be allowed wef 01 April 2026.

Brought forward MAT credit shall be available to set off from tax only in new tax regime

Domestic companies can set-off MAT credit upto 25% of tax liability

Foreign companies can Set-off Mat credit upto difference between normal tax and MAT (when normal tax > MAT)

MAT is exempted in case of all non-residents paying tax on presumptive basis

Deduction of Employee Contribution of PF / ESI / other employee welfare fund

Deduction of employee contribution is allowed if sum deposited by due date of filing of return (earlier it was allowed if sum deposited by due dates of deposition of sum as per respective act).

Deduction for IFSC Units

Deduction of 100% of certain income of IFSC is allowed for 20 consecutive years out of 25 years. Earlier deduction was allowed for 10 out of 15 years. Also reduced rate of 15% of tax is proposed for business income of IFSC unit after expiry of period of deduction.

2. Amendments for Corporate entities

Tax Holiday for Cloud Services / Data Centre till 2047

In order to attract investment in data centre and promote artificial intelligence in India, exemption Is provided to a foreign company, on any income accruing or arising in India by way of procuring data centre services from a specified data centre, for a period upto tax year ending on 31st March, 2047. the only condition to avail exemption is where services are provided to India users by the foreign company, it shall be routed through an Indian reseller entity.

Exemption on providing Capital Equipment to for Electronics Manufacturing upto 2030-31

Exemption is proposed to allow to a foreign company for a period upto the tax year 2030-2031, on any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India, who is located in a custom bonded area warehouse and produces electronic goods on behalf of such foreign company.

ICDS & Ind AS Convergence:

Joint Committee to incorporate ICDS into Ind AS | Separate ICDS accounting eliminated from Tax Year 2027-28.

3. Changes in Transfer Pricing provisions

Enhanced Safe Harbour Framework for IT Services

Consolidated Category for IT Services - Software development services, IT enabled services (ITES), Knowledge process outsourcing (KPO), Contract R&D services relating to software development included in IT services.

Unified Safe Harbour Margin: Margin of 15.5% applicable to ALL IT services. Replaces previous varied margins across categories.

Enhanced Threshold Limit: Increased from ₹300 crore to ₹2,000 crore

Unilateral APA for IT Services:

Modified return facility extended to Associated Enterprises. Modified returns to be filed by AE within a period of three months from the end of the month in which the said agreement was entered into, in respect of tax years covered by such agreement, where such agreement is entered on or after 1st April, 2026.

Component Warehousing & Data Centres

Safe harbour rate of 2% profit on invoice value is proposed | Effective tax: ~0.7% (Lower than competing jurisdictions)

Safe harbour rate of 15% on cost for data centre entities in India

4. Changes in provisions of TDS and TCS

Changes in definition of 'work' to include manpower services

There is ambiguity whether Manpower Services covered under Specifically in 'work' definition u/s 402(47). In order to provide clarity it is proposed to include manpower services under definition of 'work' and hence will attract TDS @ 1%/ 2%.

Deduction to Non-Life Insurance Business

Deduction allowed from profit of insurance business other than life insurance in the year when TDS paid later which was previously disallowed due to TDS not deducted or paid. Earlier this deduction was allowed to all except non-life insurance business.

Change in rate of TCS

Item	Existing Rate	Proposed Rate
Overseas Tour Packages	5% / 20%*	↓ **2%**
LRS - Education & Medical	5%	↓ **2%**
Alcoholic Liquor	1%	↑ **2%**
Tendu Leaves	5%	↓ **2%**
Scrap	1%	↑ **2%**
Coal/Lignite/Iron Ore	1%	↑ **2%**

5. Amendments in ITR and Assessment

Extended Return Filing Timeline

Time limit to revise returns extended from 31st December to 31st March of Assessment year with nominal fees after 31st December.

Due date of filing of ITR for Non-audit businesses/ trusts extended from 31st July to 31st Aug of Assessment year.

Updated Return

Updated return can now be filed to reduce losses claimed in original return filed within due date. Earlier update return was not allowed if it is return of loss.

Updated return Can also be filed even after reassessment notice issued. However, additional income tax payable shall be further increased by 10% of Tax and interest payable. AO shall consider the updated return and no Penalty shall be levied on additional income reported in updated return

Integrated assessment & penalty proceedings

Single integrated order for assessment & penalty shall be passed to avoid multiple proceedings for same addition. It is proposed that penalty under section 270A for shall constitute part of assessment order.

However, Interest u/s 220(2) on demand of penalty shall be levied after order of CIT(A) or ITAT(For appeal against DRP order.

Pre-deposit for stay of demand

Pre-payment for stay of demand has been reduced from 20% to 10%. Further, 10% shall be calculated only on core tax demand instead of total demand amount interest and late fees.

5. Amendments in ITR and Assessment

Time Limit for Search Assessment

Time Limit for Assessment in Search Cases increased to 18 months from the end of the quarter in which the search was initiated or requisition was made. Earlier it was 12 months from the end of the quarter in which the authorisations for search was executed, or requisition was made.

Rationalizing the period of block in case of Third persons

where undisclosed income pertaining to a third person relates only to a single year, the third person is nonetheless required to undergo the full block assessment procedure, resulting in an increased compliance burden while no search or requisition was initiated against him. Accordingly, it is proposed to amend period of block in case of third party to restrict it to those years to which undisclosed income pertains.

Other Clarificatory Amendments

- Jurisdictional AO to issue notices u/s 148/ 148A (w.r.e.f. April 1, 2021)
- Assessment valid if DIN referenced in any manner (w.e.f. Oct 1, 2019)
- Section 153/153B timelines govern draft order stage while DRP timelines u/s 144C timelines govern finalization of assessments (w.r.e.f. April 1, 2009)
- TP Officer orders: 60 days includes limitation date (w.e.f. June 1, 2007)

6. Rationalizing Penalty and Prosecution

Penalty

Mandatory late Fee is to be paid on failure to get accounts audited (If delay of 1 Month ₹75,000, beyond 1 Month ₹1,50,000)

Mandatory late Fee for Non-furnishing of CA Certified TP Audit Report in Form 3CEB (If delay of 1 Month ₹50,000, beyond 1 Month ₹1,50,000)

Late fees for Failure to furnish Statement of Financial Transaction (₹ 200 per day but not to exceed ₹1,00,000)

Penalty for not providing information sought by income tax authorities increased from ₹10,000 to ₹25,000 to improve compliance

OTHERS

Tax on Unexplained Credits, Unexplained Investment, Unexplained Asset, Unexplained Expenditure reduced from 60% to 30%

Penalty w.r.t. such additions to income proposed to be merged with penalty for misreporting of income, i.e., 200% of tax

6. Rationalizing Penalty and Prosecution

PROSECUTION

- **All Prosecutions:** Simple Imprisonment Only (No rigorous imprisonment)
- **Maximum Punishment Reduced:**
  - General offences: Reduced from **7 years to 2 years**
  - Repeat offences: Reduced from **7 years to 3 years**
  - Minor offences: Reduced from **2 years to 6 months**
- **Prosecution has been graded Based on Tax Amount:**
  - ≤ ₹10L: Fine only
  - ₹10L-50L: Up to 6 months or fine
  - >₹50L: Up to 2 years or fine

Item	Payment	Immunity
Underreporting (Existing)	Tax + Interest	From Penalty & Prosecution
Misreporting (NEW)	Tax + Interest + 100% Additional tax	From Penalty & Prosecution
Unexplained Credits, Investment, Asset etc. (NEW)	Tax + Interest + 120% Additional tax	From Penalty & Prosecution
Foreign Assets - Black Money Act	NA for Immovable < ₹20L	From Prosecution (w.e.f. 01.10.24)

7. Amendments in Capital Gain Provisions

Security Transaction Tax Increase:

Futures: from 0.02% to 0.05%

Options premium: from 0.1% to 0.15%

Options exercise: from 0.125% to 0.15%

Taxation of Buyback of shares

Profit on buyback of shares shall be Taxed as Capital Gains which was taxed as dividend under the existing provisions. Also, promoters have to pay balance additional tax on such capital gain to make Effective tax at the rate of 22% for corporate / 30% for non-corporate.

Exemption of gain on Land Acquisition under RFCTLARR Act:

Any income in respect of any award or agreement made on account of compulsory acquisition of any land, carried out on or after the 1st April, 2026, under the RFCTLARR Act shall be exempt. In earlier years the said income was also treated as exempt by virtue of circular no. 36/2016.

Capital Gains exemption Sovereign Gold Bonds (SGB) rationalized

Exemption from capital gain on all series / issues of SGB shall be available only if: (a) SGB Subscribed at original issue; and (b) Held till maturity.

8. Other Miscellaneous Amendments

Deduction of interest expenditure from dividend income
No deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds

Lower or Nil TDS Certificate through Automated Process:
Lower or Nil TDS Certificate will be through automated process.

Incentive for extracting or prospecting Critical Minerals

Deduction is allowed in respect of expenses incurred by an Indian company or resident taxpayers (other than companies) engaged in any operations relating to prospecting or extraction or production of the specified minerals. In order to incentivize the prospecting and exploration of the critical minerals, it is proposed to expand the list of minerals in Schedule XII of the Act, thereby making expenditure on prospecting and exploring of such critical minerals also eligible for deduction.

Foreign Asset Disclosure Scheme (FAST-DS 2026):
One Time 6-month window for small taxpayers was introduced in order to enable resolution of cases on account of inadvertent non-disclosure of foreign assets of small taxpayers. it is proposed to introduce a time-bound scheme for declaration of foreign assets and foreign-sourced income, with payment of tax or fee based on the nature and source of assets and income. and grant of limited immunity from penalty and prosecution under the Black Money Act.

Category A (Non-disclosed income / assets): Up to ₹ 1 Crore undisclosed income/asset· Pay 30% of FMV / 30% tax + 30% additional income tax (in lieu of penalty) - Immunity from prosecution shall be granted.

Category B (Disclosed income but not asset): Up to ₹5 cr asset value· Pay ₹1 lakh fee· Immunity from both penalty and prosecution shall be granted.

Thanks!

DO YOU HAVE ANY QUESTION?

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