



Union Budget 2026

Analysis of Direct Tax Proposals

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3rd February 2026



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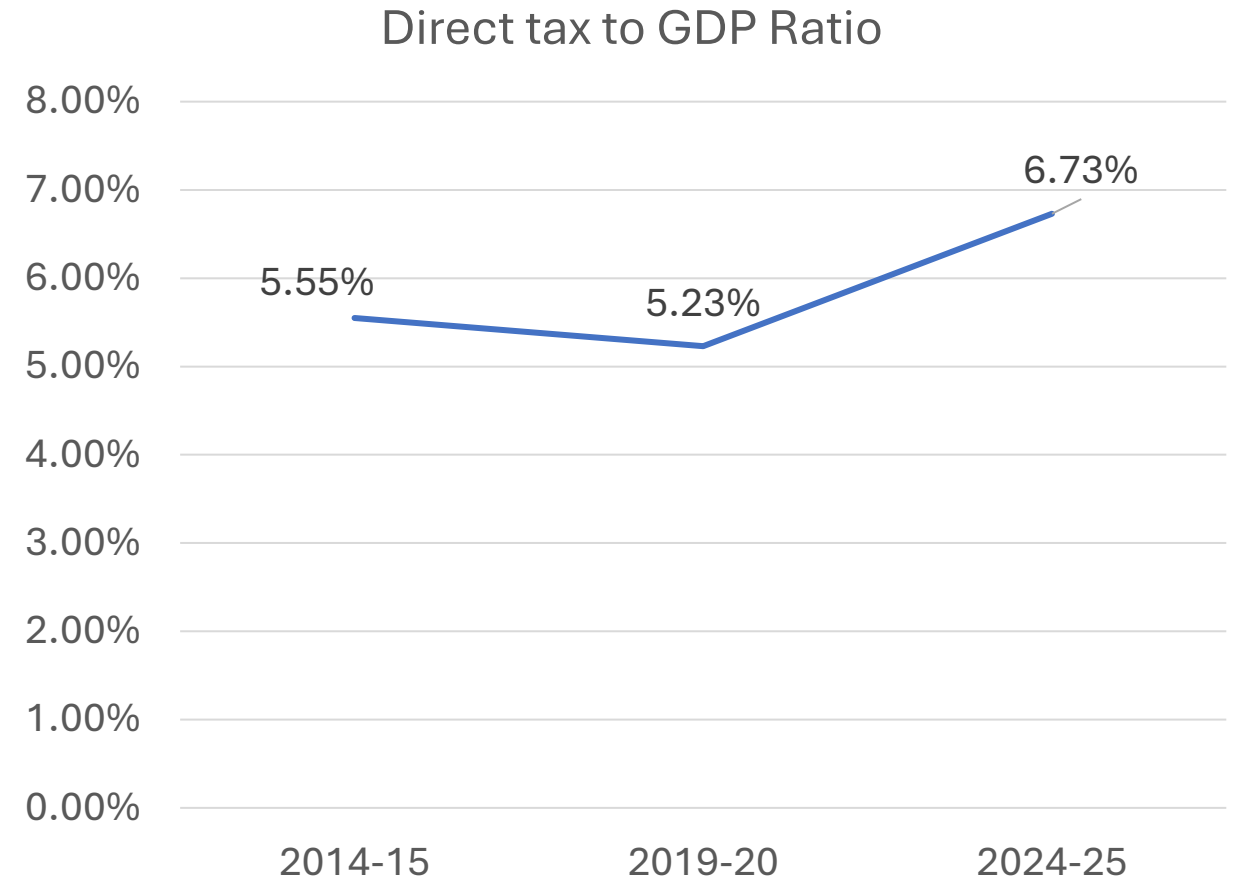
Budget & Macros

1. Direct Tax to GDP ratio
2. Tax collections
3. Number of ITRs and return filers
4. Other Data



Direct Tax to GDP ratio

| FY | Direct tax to GDP Ratio |
|---------|-------------------------|
| 2014-15 | 5.55% |
| 2019-20 | 5.23% |
| 2024-25 | 6.73% |

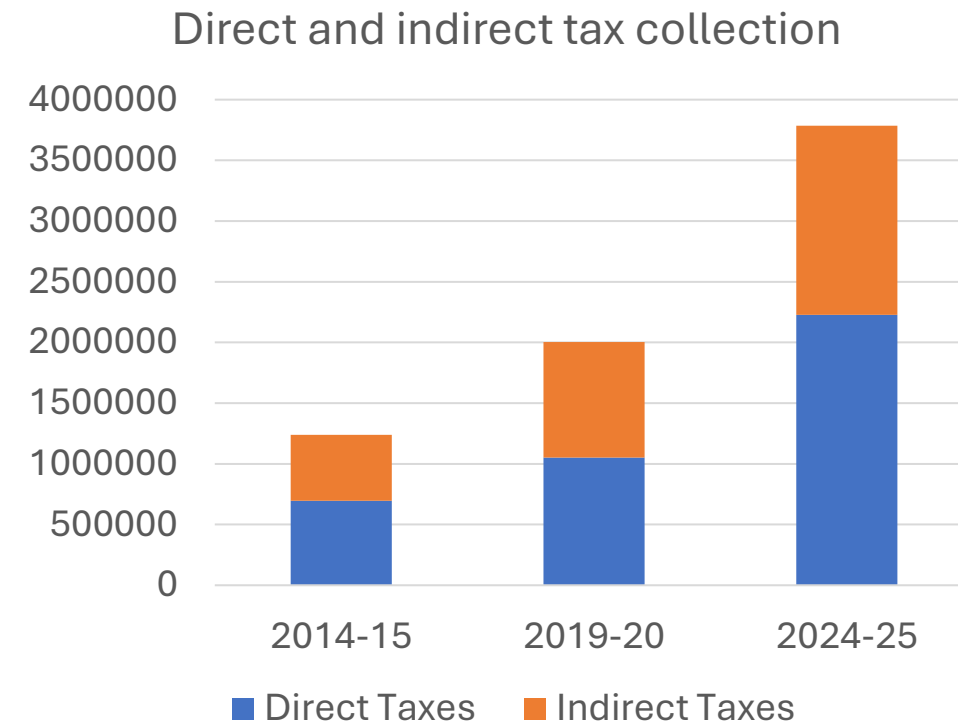


Source:
<https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf>

Direct and Indirect tax collection

| | | | | | Rs. Crores |
|---------|--------------|------------|----------------|------------|------------|
| FY | Direct taxes | % of total | Indirect taxes | % of total | Total |
| 2014-15 | 6,95,792 | 56.15 | 5,43,215 | 43.86 | 12,39,007 |
| 2019-20 | 10,50,681 | 52.42 | 9,53,513 | 47.58 | 20,04,194 |
| 2024-25 | 22,26,375 | 58.80 | 15,59,596 | 42.20 | 37,85,971 |

GST was introduced in 2016



Source: <https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf>

Direct Tax collection across categories

Rs. Crores

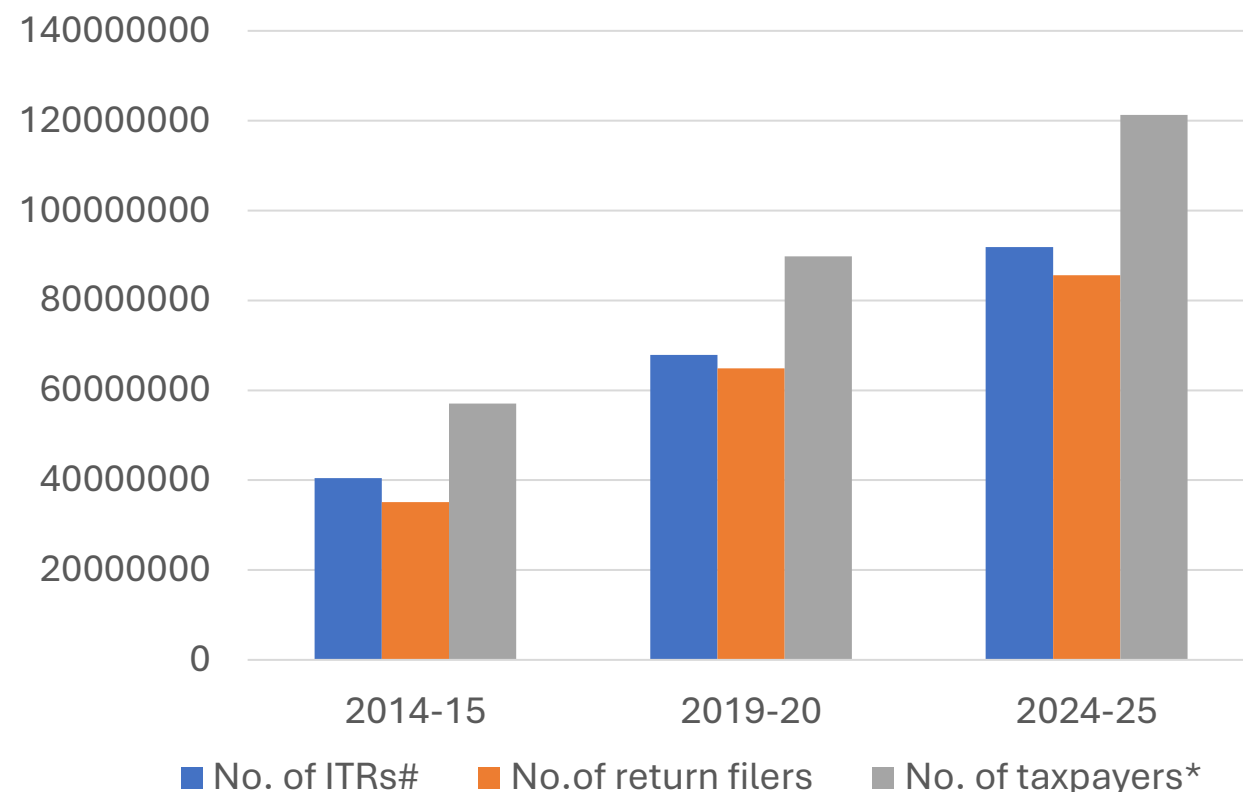
| FY | Corporate | % of Total | Personal | % of Total | Others | Total |
|---------|-----------|------------|-----------|--------------|--------|-----------|
| 2014-15 | 4,28,925 | 61.65 | 2,65,772 | 38.19 | 1,095 | 6,95,792 |
| 2019-20 | 5,56,876 | 53.01 | 4,92,717 | 46.90 | 1,088 | 10,50,681 |
| 2024-25 | 9,86,767 | 44.30 | 12,35,161 | 55.47 | 4,447 | 22,26,375 |

Source: <https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf>

Number of ITRs and return filers

| FY | No. of ITRs# | No. of return filers | No. of taxpayers* |
|---------|--------------|----------------------|-------------------|
| 2014-15 | 4,04,31,690 | 3,51,02,185 | 5,70,36,588 |
| 2019-20 | 6,78,97,450 | 6,48,65,888 | 8,98,27,420 |
| 2024-25 | 9,18,46,067 | 8,56,34,289 | 12,13,27,509 |

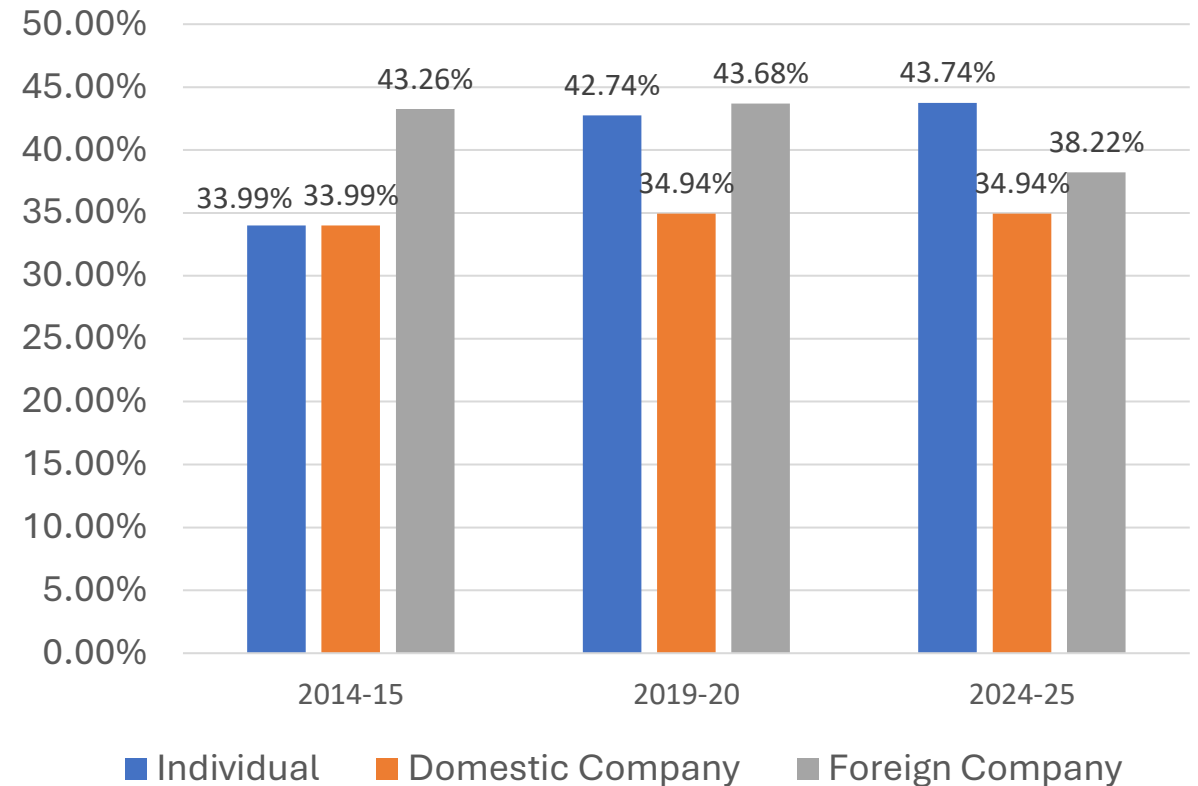
*Taxpayer = Return filed + TDS deducted but return not filed
 #(incl. revised returns)



Source: <https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/735/Final-time-series-data.pdf>

Headline tax rate

| FY | Individual | Domestic company | Foreign Company |
|---------|------------|------------------|-----------------|
| 2014-15 | 33.99% | 33.99% | 43.26% |
| 2019-20 | 42.74% | 34.94% | 43.68% |
| 2024-25 | 42.74% | 34.94% | 38.22% |



Direct tax collection for FY 2025-26 (as on 11.01.2026)

Rs. Crores

| Category | Actual Collection | Budgeted Estimate | Revised Estimate |
|---------------|-------------------|-------------------|------------------|
| Corporate | 8,63,039 | 10,82,000 | 11,09,000 |
| Non-corporate | 9,29,672 | 13,57,000 | 12,48,000 |
| STT | 44,867 | 78,000 | 63,670 |
| Other Taxes | 321 | 3000 | 330 |
| Total | 18,37,898 | 25,20,000 | 24,21,000 |

*Net of refunds

Source:

<https://incometaxindia.gov.in/Lists/Latest%20News/Attachments/744/Direct-Tax-Collections-for-F.Y.%202025-26-as-on-11.01.2026.pdf>

Stock Market

TRACKING THE TREND: MARKETS ON BUDGET DAY

| Date | Sensex (Close) |
|----------------|----------------|
| Feb '15 | 29,362 |
| Feb '20 | 39,736 |
| Feb' 24 | 71,645 |
| Jul '24 | 80,429 |
| Feb '25 | 77,506 |

| Date | Close | 1-day change (%) | BSE Sensex | | | |
|---------------------|---------------|------------------|---------------|---------------|--------------|------------|
| | | | High | Low | Spread | Spread (%) |
| Jul 10, 2014 | 25,373 | -0.3 | 25,920 | 25,117 | 803 | 3.2 |
| Feb 28, 2015 | 29,362 | 0.5 | 29,560 | 28,882 | 678 | 2.3 |
| Feb 29, 2016 | 23,002 | -0.7 | 23,343 | 22,495 | 849 | 3.8 |
| Feb 1, 2017 | 28,142 | 1.8 | 28,160 | 27,590 | 569 | 2.1 |
| Feb 1, 2018 | 35,907 | -0.2 | 36,257 | 35,502 | 755 | 2.1 |
| Feb 1, 2019# | 36,469 | 0.6 | 36,778 | 36,221 | 557 | 1.5 |
| Jul 5, 2019 | 39,513 | -1.0 | 40,032 | 39,441 | 591 | 1.5 |
| Feb 1, 2020 | 39,736 | -2.4 | 40,906 | 39,631 | 1,275 | 3.2 |
| Feb 1, 2021 | 48,601 | 5 | 48,764 | 46,434 | 2,331 | 5 |
| Feb 1, 2022 | 58,863 | 1.5 | 59,032 | 57,738 | 1,295 | 2.2 |
| Feb 1, 2023 | 59,708 | 0.3 | 60,773 | 58,817 | 1,957 | 3.3 |
| Feb 1, 2024# | 71,645 | -0.2 | 72,151 | 71,575 | 576 | 0.8 |
| Jul 23, 2024 | 80,429 | -0.1 | 80,766 | 79,224 | 1,542 | 1.9 |

Interim Budget; Compiled by BS Research Bureau

Sources: Bloomberg/Exchanges

Source: https://www.business-standard.com/budget/news/budget-2024-stocks-dip-as-govt-proposes-hike-in-taxes-on-capital-gains-124072300810_1.html

Key highlights from Economic Survey 2026



Key highlights from Economic Survey

- Share of direct tax revenue increasing from 51.9% pre-pandemic to 58.8% in FY25 (provisional).
- The tax revenue to GDP ratio has shown consistent growth from 10.8% (FY 16-FY20) to 11.5% during (FY 22-FY25).
- Non-corporate tax collection shows strong-performance to around 3.3% of GDP post pandemic.
- NUDGE approach adopted by the Government has aided in improving tax compliance and enhancing tax administrative efficiency. This helped in reduction of litigation and compliance cost. Some of the highlights were –
 - i. 25,000 taxpayers revised their return resulting in declaration of Foreign Assets of Rs. 29,000 Cr. and income exceeding Rs. 1000 Cr.
 - ii. Reduction of excessive 80GGC deduction of Rs. 2050 Cr.
 - iii. Non-genuine agricultural income of Rs. 2,038 Cr.
 - iv. Identification of Capital Gains of Rs. 33,057 on Offer for Sale.
- The Government noted currently, identical transactions under transfer pricing and customs are independently evaluated by different authorities. Considering the conceptual similarities, the Government notes an opportunity to move towards collaborative convergence approach.

Direct-tax Key Proposals

1. Transition to 2025-ITA
2. Buyback Taxation
3. Minimum Alternate Tax
4. Compulsory acquisition of Land
5. Employee PF contribution
6. SGBs
7. Income from House Property
8. IFSC Tax holiday



2025-ITA Transition

- **Budget 2026 is historic & unique.** It paves the way of transition from 1961 Income Tax Act (**1961-ITA**) to 2025 Income Tax Act (**2025-ITA**).
- 2025-ITA is set to come into effect from 1st April, 2026.
 - The FM announced that the new rules and forms shall be notified soon. This is extremely crucial to operationalize the income tax law.
- Finance Bill 2026 carries amendments into 1961-ITA and 2025-ITA.
- Separate schedules for tax rates:
 - One for AY 2026-27, which is relevant for 1961-ITA.
 - Second for tax year or FY 2026-27, which is relevant for the 2025-ITA.
- Watch out for the effective dates for various proposals:
 - The provisions in the 1961 law have been made effective from the first of March, 2026.
 - Certain retrospective amendments going up to year 2009 to deal with the pending litigation provide clarity.
 - Effective date for 2025-ITA - The substantive provisions are effective from 1st April 2026, whereas procedural amendments effective from 1st April 2027.

2025-ITA Transition

- Suitable changes carried out in the transition provisions from the 1961-ITA to the 2025-ITA.
- Heartening to see that some of the stakeholder feedback on drafting anomalies in 2025-ITA have been addressed, and various amendments have been carried out to the 2025-ITA to correct these anomalies.
- Suggested consultative feedback with stakeholders to further fine-tune the 2025-ITA is suggested.

Buyback – Taxable as Capital Gains

- Pre 2024- No tax on Buyback (SC) >> Buyback through section 46A taxed as capital gain >>, Then converted into a buyback distribution tax (18%) in the hands of the companies.
- Finance (No.2) Act, 2024 treated buy-back proceeds as dividends under Section 2(22)(f).
- Budget 2026 - Buy-back proceeds are proposed to be taxed as capital gains under Section 69 of the 2025-ITA (corresponds to Section 46A). Additional tax - on top of capital gains tax.
- Promoters liable for additional tax cumulative to – 22% in case of domestic companies & 30% for individuals; Chart of applicable tax rates on shareholders

Surcharge and cess extra

| Residents | Long term | | Short term | |
|--------------------|--------------------------------|--|---------------------------|------------------------------|
| | | | Listed | Unlisted |
| Promoters | 12.50% + 17.50% = 30% | | 20% + 10% i.e. 30% | Applicable rates (up to 30%) |
| Promoter Companies | 12.50% + 9.50% i.e. 22% | | 20% + 2% i.e. 22% | 22% |
| Non-promoters | 12.5% | | 20% | Applicable rates (up to 30%) |

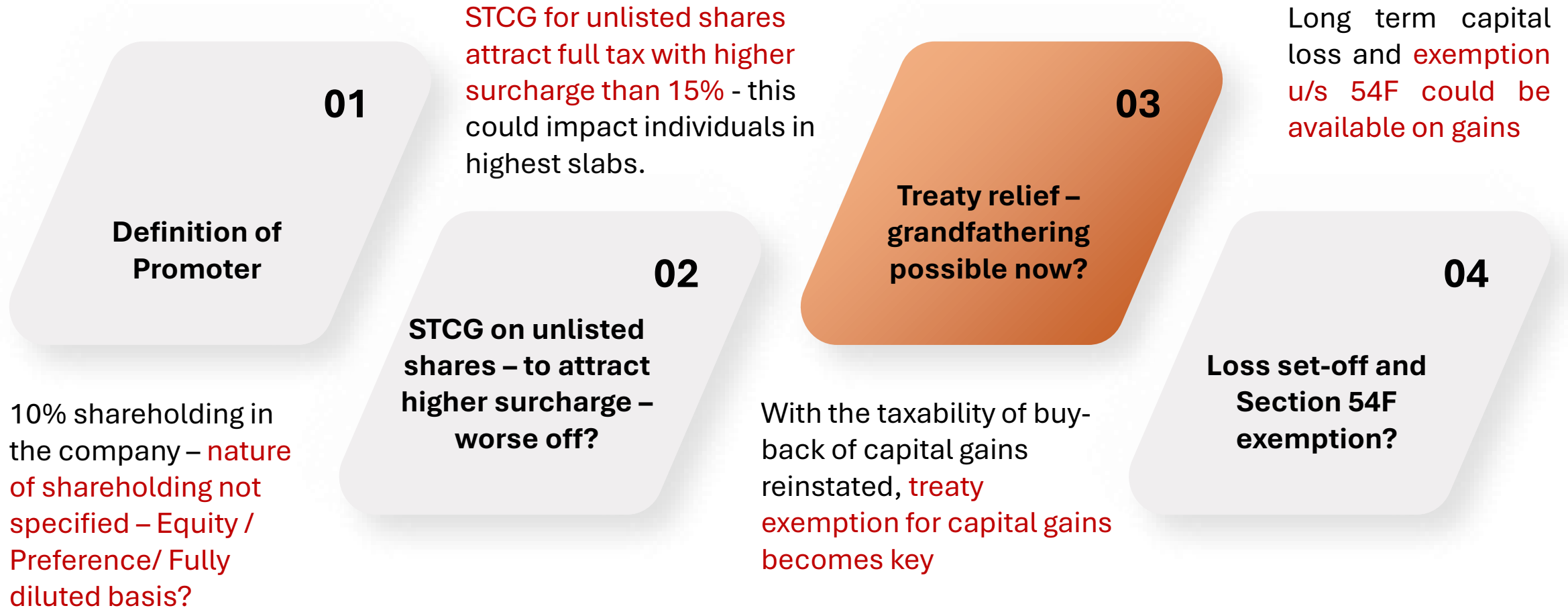
Buyback – Taxable as Capital Gains

- Promoter definition:
 - **For listed companies** - as per SEBI Buyback Regulations read with SEBI Takeover Regulations and SEBI Issue of Capital and Disclosure Requirements Regulations.
 - **For unlisted companies** – (i) as per Section 2(69) of the Companies Act, 2013 (“CA, 2013”) or **(ii) a person who holds directly or indirectly more than 10% of the shareholding in the company**

| Listed companies – SEBI Buyback Regulations | Unlisted companies – Section 2(69) of the CA, 2013 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Promoter shall include a person:</p> <ul style="list-style-type: none"> ▪ Who has been named as such in draft offer document or offer document or annual return ▪ who has control over the affairs of the issuer, directly or indirectly whether as a shareholder, director or otherwise ▪ in accordance with whose advice, directions or instructions the board of directors is accustomed to act. Not applicable to persons acting in professional capacity. <p>Promoter also includes a member of Promoter group which further widens the scope.</p> | <p>Promoter means a person -</p> <ul style="list-style-type: none"> ▪ Who has been named as such in a prospectus or annual return ▪ who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; ▪ in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act. Not applicable to persons acting in professional capacity. |

Buyback – Taxable as Capital Gains

- Issues for consideration



Buyback – Taxable as Capital Gains

- Issues for consideration

The Section applies to ‘specified securities’ also, which includes ESOP. Buy-back of ESOP from person qualifying as ‘promoter’ would attract 30% tax

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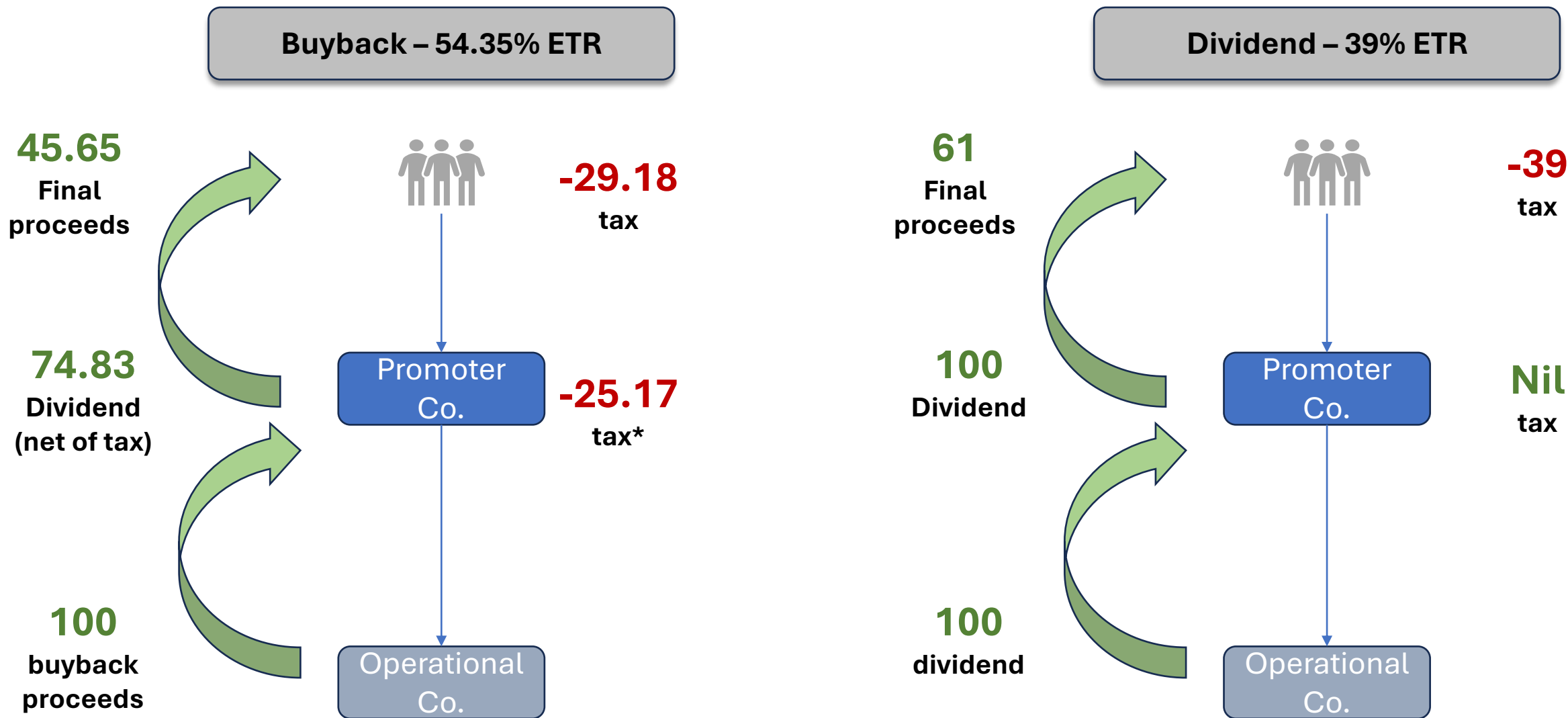
Stock Options – buyback from optionholder qualifying as promoter

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Risk of treatment as ‘dividend’ not ruled out

Prior to insertion of Section 2(22)(f) taxing buyback as dividend, specific exemption in dividend definition for buyback u/s 77A of CA1956 existed. Even with taxability restored as capital gains, **the exemption in the definition of ‘dividend’ not reintroduced.**

80M benefit not available



Buyback – Non-residents

- Impact for non-residents

| Non-Residents | Long term | Short term | |
|------------------------|--------------------------------|---------------------------|------------------------------|
| | | Listed | Unlisted |
| Promoters - Individual | 12.50% + 17.50% = 30% | 20% + 10% i.e. 30% | Applicable rates (up to 30%) |
| Promoter Companies | 12.50% + 9.50% i.e. 22% | 20% + 10% i.e. 30% | 35% |
| Non-promoters | 12.5% | 20% | Applicable rates (up to 35%) |

- Promoter and non-promoter distinction is under domestic law. No distinction under treaty.

Buyback taxation – Treaty impact

Example 1: Singapore

- **Dividend** – 10% / 15%
- **Grandfathered investments (before 1 April 2017) – Not taxed in India – Allocated to Singapore.**
- **Investments acquired after 1 April 2017** - Taxed in India as per domestic law.

Example 1A: Mauritius –

Dividend - 5% / 15%

Example 2: USA

- **Dividend** – 15% / 25%
- **Capital gains – Taxed in India as well as USA as per domestic laws.**

Example 3: Netherlands

- **Dividend** – 10%
- **Less than 10% shareholding – Not taxed in India – Allocated to Netherlands.**
- **More than 10% shareholding – Taxed in India:**
- **Condition 1 – 10% shareholding in India Co. - satisfied**
- **Condition 2 – ‘corporate organisation / Reorganisation’ argument - ITAT Mumbai negative ruling¹**

1. *Accordis Beheer B V Vs. Director of Income Tax (International Taxation) [2016] 157 ITD 373 (Mumbai)*

Buyback – Taxable as Capital Gains

- Buyback of shares – whether dividend or capital gains? – Swings with every buyback amendment.
- **Dividend definition example (Singapore):** ***income from shares or other rights** not being debt-claims, participating in profits, as well as **income from other corporate rights** which is subjected to the same **taxation treatment** as income from shares by the laws of the State of which the company making the distribution is a resident.*
- **Capital gains example (Singapore):**
 - 4A. Gains from the **alienation of shares** acquired before 1 April 2017 in a company which is a resident of a Contracting State shall be taxable only in the Contracting State in which the alienator is a resident.
 - 4B. Gains from the **alienation of shares** acquired on or after 1 April 2017 in a company which is a resident of a Contracting State may be taxed in that State.
- Interplay of Article 3(2) and domestic law definitions.

Minimum Alternate Tax [2025-ITA]

- The MAT credit available under the **old regime for domestic companies** is proposed to be done away with – Financial Year 2026-27 onwards in New Act [Section 206]
- **What has changed from tax year 1 April 2026 (FY 2026-27)**

| If in Old Regime | New Regime |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| No MAT credit going forward – MAT is final tax | Opting for new regime for tax year commencing on or after 01 April 2026 |
| No MAT credit set off allowed where tax payable under normal provision | MAT credit accumulated u/s 115JAA as on 31 st March 2026 |
| MAT will be payable at 14%, instead of 15% | Accumulated MAT credit can be set off upto 25% of tax payable on total income. Balance MAT credit can be carried forward |

- **What has not changed**
 - Alternate Minimum Tax (AMT) on non-company assessee continues to apply without change.
 - In case of foreign companies, the MAT credit and set off mechanism is preserved.

Minimum Alternate Tax [2025-ITA]

- MAT exemption extended to all foreign companies eligible for presumptive tax as per Section 61 (e.g. ships, cruise, aircraft, electronic manufacturing, extraction of mineral oil) .
 - The overall time-limit of 15-year for set off remains unchanged.
 - **Impact areas**
 - Companies continuing in old regime for MAT credit utilisation – evaluate switch to new regime from tax year 2026-27 – *For FY 2025-26 (i.e AY 2026-27) can continue in old regime based on cost benefit analysis*
 - Companies that switched over to the new regime in the past years, even with accumulated MAT credit – *not eligible to claim old MAT credit, clarified in CBDT FAQ*
 - Deductions not allowable in new regime (e.g. 10AA, 80-IA, etc.) – *impact analysis of tax cost outflow is relevant – See scenarios in next slide*
 - ETR equilibrium to continue in old regime < **18.8%**
- Companies with **PBT Rs. 500+ crore ~ 54.18%** of the total corporate tax . **Their ETR 18.85 %!**
 - Of the tax revenue forgone close to 1 lakh crore, **75% tax holiday** is taken by three major incentives - SEZs tax holiday (section 10AA), accelerated depreciation (sec 32) and power generation units (80-IA).

Source – Receipt Budget

Minimum Alternate Tax [2025-ITA]

- Applicable tax rates

| Particulars | Rate |
|-------------------------------|--------|
| Company tax rate - old regime | 29.12% |
| Company tax rate – new regime | 25.17% |
| MAT rate (14%*1.12%*4%) | 16.31% |

Case 1 – Shift to New Regime
Case 2 – Stay in Old Regime & pay MAT

- Scenarios –

(Amount in Rs. Crores)

| Particulars | Case 1 | | | Case 2 | | |
|----------------------------------------|-------------|---------------|---------------|-------------|---------------|---------------|
| | Old Regime | | New Regime | Old regime | | New Regime |
| | Normal | MAT | | Normal | MAT | |
| Opening MAT credit (01Apr2026) | | 30 | | | 30 | |
| Section 80-IA / 10AA income | 50 | 50 | 50 | 100 | 100 | 100 |
| Other profits | 100 | 100 | 100 | 50 | 50 | 50 |
| Total Income | 150 | 150 | 150 | 150 | 150 | 150 |
| Tax | 29.1 | 24.5 | 37.8 | 14.6 | 24.5 | 37.8 |
| MAT credit available (upto 25% of tax) | | | 9.44 | | | 9.44 |
| Tax payable | | 29.12 | 28.31 | | 24.46 | 28.31 |
| ETR | | 19.41% | 18.88% | | 16.31% | 18.88% |

Minimum Alternate Tax [2025-ITA]

■ Scenarios (Contd.)–

(Amount in Rs. Crores)

| Particulars | Case 3 | | | Case 4 | | |
|----------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | Old regime | | New Regime | Old regime | | New Regime |
| | Normal | MAT | | Normal | MAT | |
| Opening MAT credit (01Apr2026) | | NIL | | | NIL | |
| Section 80-IA / 10AA income | 50 | 50 | 50 | | | |
| Other profits | 100 | 100 | 100 | 100 | 100 | 100 |
| Total | 150 | 150 | 150 | 100 | 100 | 100 |
| Tax | 29.1 | 24.5 | 37.8 | 29.1 | 16.3 | 25.2 |
| MAT credit available (upto 25% of tax) | | | | | | |
| Tax payable | | 29.12 | 37.75 | | 29.12 | 25.17 |
| ETR | | 19.41% | 25.17% | | 29.12% | 25.17% |

Case 3 – Stay in old regime
Case 4 – Absolutely Shift to
New Regime

Compulsory Land Acquisition – exemption

- Income in respect of award or agreement made on account of compulsory acquisition of law to Individual or HUF – if such award is made under Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLR).
 - This was already exempted under RFCTLR (Section 96) and also CBDT Circular 36 of 2016
 - The express exemption is for individuals and HUF.
 - *For other entities (like firms or companies), the benefit should continue under RFCTLR – potential for tax litigation*

Employee PF Contribution

- Deduction for **employee contribution** to employees benefit funds – was allowed only when the deducted amounts were deposited within the due date.
 - Supreme court interpreted the “due date” strictly to imply that the deduction of employee contribution shall not be allowed if there is any delay in depositing the contributions to relevant funds. {Refer *Checkmate Services [(2022) 448 ITR 518 (SC)]*}
 - This was a permanent disallowance.
 - In the new law, the deduction of employee contribution shall be available if the dues are deposited before the due date of filing the ITR.

Capital Gains - Sovereign Gold Bonds

- Sovereign Gold Bonds (SGB)
 - Currently, Section 47 (old Act) / Section 70(1)(x) (new Act) exempts transfer of SGB issued by RBI under SGB Scheme, 2015 by an individual, by way of redemption.
 - It is proposed to substitute w.e.f. 01.04.2026, to provide that the **redemption of SGB** issued by RBI under 2015 or subsequent scheme shall be exempt, if held by an individual from the date of original issue till maturity.
 - **Before the amendment, it was possible to claim exemption on redemption, even if the SGB was purchased from secondary market.**

Limit on expenses from dividend income

- Under the existing law, against the dividend income, the following deductions were allowed:
 - commission or remuneration to banker for realising the sum was allowable
 - Interest expense, limited to 20% of dividend income
- It is proposed that **no deduction of expense shall be allowed against dividend income.**

Income from House Properties

- The deemed let out property exemption under “Income from House Property” was available to entities in real estate business - for up to 2 years from the date of completion of construction.
 - The new Act inadvertently provided the benefit for two years from the date of completion of construction
 - **The drafting is aligned with the old Act.**
- The deduction of interest on borrowings in case of self acquired property is limited to Rs. 2,00,000 or Rs. 30,000 depending upon the purpose of the borrowing. This limit includes the pre-construction period interest as well.
 - Due to one reference error in the new Act, the pre-construction period interest was subject to above limits
 - **The drafting is aligned with the old Act.**

IFSC units – Tax holiday extended

- The units in IFSC currently have a tax holiday for 10 consecutive AY out of 15 years from the year in which the permission from IFSCA is obtained.
- The tax holiday for IFSC units is extended under Section 147 of the new Act:
 - Overseas Banking Unit – 20 years from the year in which permission/registration is obtained
 - Other IFSC units - 20 consecutive tax years, out of 25 years from the year in which permission / registration is obtained from IFSCA.
- The extended tax holiday under new Act overrides the provisions of Section 80LA of 1961-ITA. Hence, shall apply even to existing entities.
- **Critical condition : For availing tax holiday, the IFSC unit commencing business after 01st April 2026, shall not be formed by splitting up or reconstruction or reorganisation or transfer of a business already in existence. [Section 80LA did not have such condition]**
- The IFSC unit is allowed to pay tax on its income from IFSC business operations at 15%
- Specific carve out for Deemed dividend exemption for “Finance Company” in IFSC – further clarification on language with reference to overseas Groups where entity is listed outside India

Imp Amendments

- Single window filing with depositories for Form 15G or Form 15H for TDS on dividends, interest etc.
- Constitute a Joint Committee of Ministry of Corporate Affairs and Central Board of Direct Taxes for incorporating the requirements of Income Computation and Disclosure Standards (ICDS) in the Indian Accounting Standards (IndAS).
- Provisions of the income-tax schedule granting tax status to recognised provident funds aligned with the Employee Provident Fund law.
 - INR 7,50,000 threshold principle integrated

Retrospective amendments



Settling 3 Disputes – Retro Amendments

| Particulars | 1. FAO v. JAO for reassessment proceedings | 2. Time-limit for passing Assessment involving DRP proceedings | 3. Validity of orders not quoting DIN |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|
| Controversy | JAO issued notices u/s 148A/148 in multiple cases, whereas the reassessment order to be passed in Faceless manner as per Faceless assessment Scheme. The reassessment proceedings were challenged. | The timelines provided under Section 153 for completion of assessment proceedings, is inclusive of time-taken for DRP proceedings. | Not quoting of DIN in the assessment was considered by courts as fatal to assessment proceedings. |
| Rulings | Multiple contradicting HC rulings (Hexaware from Bombay HC) | Split verdict of SC - <i>Shelf Drilling (2025) 177 taxmann.com 262 (SC)</i> . | Various High Court rulings |
| Amendment | For the purposes of Section 148/148A, the definition of AO shall not include NFAC. | The time-limit under Section 153, applies to draft assessment order. | An assessment order will be valid if DIN for the order is communicated in any manner. |
| Retrospective Effective Date | 1 st April, 2021 | 1 st April, 2009 | 1 st October, 2019 |

Settling 3 Disputes – Retro Amendments

- **Language from Memorandum -**
- 6. The Income-tax Act, 2025 is coming into force from the 1st of April, 2026. The objective of the new law has been to provide simplicity in language and provisions so as to avoid interpretational issues and prevent litigation. Therefore, there is an urgent need to clarify the position of law in the new Income-tax Act, 2025. The intention of the legislature also needs to be clearly laid out in the Income-tax Act, 1961 so that the intent is uniformly reflected in the two Acts.
- 7. Accordingly, it is proposed to clarify in the Income-tax Act, 1961 that notwithstanding anything contained in any judgment, order or decree of court, the Assessing Officer for the purposes of section 148 and section 148A **shall mean and shall always be deemed to have meant Assessing Officer other than the National Faceless Assessment Centre or any of its assessment units**. Suitable amendment is also carried out in the Income-tax Act, 2025 so that correct interpretation is taken and litigation is minimized and certainty is achieved.

TDS and TCS

1. Modification to TCS Rates
2. Changes in TDS/TCS regime



Modifications to TCS Rates (1 April 2026)

| Sl.No | Nature of receipt | Current TCS Rate | Proposed TCS 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% |
| 5. | Remittance under the LRS of an amount or aggregate of the amounts exceeding ten lakh rupees— | (a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment. | (a) 2% for education or medical treatment; (b) 20% for other purposes |
| 6. | Sale of “overseas tour programme package” including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure. | (a) 5% of amount or aggregate of amounts up to ten lakh rupees; (b) 20% of amount or aggregate of amounts exceeding ten lakh rupees. | 2% in all scenario |

Changes in TDS / TCS regime

- **Supply of Manpower** – expressly included in the definition of “work” – TDS applicable at 1% or 2% as the case maybe [Section 402(47)(f) and Section 393(1) – Table Sl. No. 6(i) or 6(ii)]
- **Individuals / HUF purchasing immovable property from a non-resident, can now discharge the TDS liability under Section 393(2), without obtaining the TAN.**
 - This amendment is valid from 01st October 2026. Thus, the additional compliance requirement of obtaining TAN shall continue in the interim.
- Automated rule based certificate for NIL / lower withholding would also be available. The procedure in this regard shall be notified. [Section 395 (2025-ITA)].
- No TDS on interest on compensation awarded by Motor Accidents Claims Tribunal to an individual or his legal heir under Motor Vehicles Act, 1988.
- Declaration of non-deduction of TDS can be made to Depositories in respect of dividend, interest on securities, which are held with such depositories – this is available w.e.f. **01.04.2027**.

Tax Returns

1. Change in due date of ITR
2. Revised Return timeline extension
3. Updated Return



Change in due date for filing of ITR

- The due-date for filing of ITR is proposed to be modified from **AY 2026-27 & FY 2026-27**:

| Assessee | | Existing due date | Proposed due dates |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|---------------------------|---------------------------|
| Assessee with Transfer pricing applicability | No change | 30 th November | 30 th November |
| <ul style="list-style-type: none"> • Company • Other audit cases (including registered charitable trusts, LLP) • Partners of the firm – audit cases | No change | 31 st October | 31 st October |
| <ul style="list-style-type: none"> • Assessee with PGBP income – non-audit cases – also includes private trusts, AOPs • Partners of firms – non-audit cases | | 31 st July | 31 st August |
| Others (including ITR 1, 2 filers) | No change | 31 st July | 31 st July |

- Relevant provisions

| Old Act | New Act |
|----------------------------------|----------------|
| Explanation 2 to Section 139 (1) | Section 263(1) |

Revised return due dated extended

- The due date for filing revised return extended from 31st December currently, to 31st March of the AY.
- On filing of revised return between January to March, **a nominal fee** shall apply:

| Particulars | Total Income <= INR 5 Lakhs | Other cases |
|-----------------|-----------------------------|-------------|
| Applicable Fees | INR 1000 | INR 5000 |

- Relevant Sections

| Particulars | 1961-ITA | 2025-ITA |
|---------------------------------------------|-----------|-----------|
| Extended deadline for filing revised return | S. 139(5) | S. 263(5) |
| Fees for filing | S. 234-I | S. 428(b) |

- The Amendment in the old Act is effective 01st March 2026. *If the Finance Act is passed in March 2026, would revised return for AY 2025-26 be possible?*
- *Condition for revision of return - discovers omission or wrong statement*

Scope of Updated Return expanded

- Updated return is allowed to be filed for up to 48 months from the end of AY, with graded additional tax liability:

| Period | Additional Tax rate |
|---------------------------------------|----------------------------------------|
| Up to 12 months from end of AY | 25% of aggregate tax + interest |
| Up to 24 months from end of AY | 50% of aggregate tax + interest |
| Up to 36 months from end of AY | 60% of aggregate tax + interest |
| Up to 48 months from end of AY | 70% of aggregate tax + interest |

No graded tax in case of loss reduction

- Updated return is allowed only where additional total income is reported. Proposed to expand the scope to two additional scenarios when an updated return would be possible:
 - Reduction in returned loss**
 - Notice of re-assessment is issued under Section 148 (old) / Section 280 (new)**
- In case of filing of return against re-assessment notice, 10% additional income-tax over and above the above rates shall apply. For example: additional tax payable up to 24 months will be 60% (50%+10%).

Scope of Updated Return expanded

- The income disclosed in the updated return filed against the re-assessment notice shall not be considered for computing penalty. [S. 270A(11A) (old) / S. 439(13A) (new)]
- *Where the re-assessment notice is issued after 3 years from the end of relevant AY, the updated return benefit may not apply. [4th Proviso to Section 139(8A) (old)/ Section 263(6)(b)(ix) (new)]*
- Relevant Sections

| Particulars | Old Act | New Act |
|--------------------------|------------|-----------|
| Updated Return | S. 139(8A) | S. 263(6) |
| Tax on Updated Return | S. 140B | S. 267 |
| Notice for Re-assessment | 148 | S. 280 |

Assessments

1. Merger of penalty proceedings with assessment
2. Reduction in Pre-deposit for appeal
3. Block assessment



Merger of penalty proceedings with assessment

- Presently, the penalty proceedings are initiated upon passing of assessment order and are carried out separately. The litigation on assessment (quantum) proceedings and penalty proceedings also run parallelly.
- In respect of Assessment order passed on or after **01st April 2027** (either under 1961-ITA or 2025-ITA):
 - Show-cause notice for penalty to be issued during the assessment proceedings itself
 - Penalty, if any, shall be imposed as part of the assessment order itself.
- Effective Dates
 - Amendments to come into force in ITA **2025-ITA from 1st day of April, 2026** and shall be effective from 1st day of April, 2027, where any draft of the proposed order is made **on or after 1st of April, 2027**.
 - Amendments shall come into force in **1961-ITA from the 1st day of March, 2026** and shall be effective from 1st day of April, 2027, where any draft of the proposed order **is made on or after 1st of April, 2027**
- Dispute Resolution Committee [Section 379 (2025-ITA)] – empowered to waive any penalty “imposed” or “imposable” under the Act. Currently, it could waiver only the penalty imposable under the Act.
- Interest on tax demand under S. 220 (1961-ITA) / S. 411 (2025-ITA) **pertaining to penalty imposed:**
 - shall not apply upto the date of passing of CIT(A) order.
 - For cases under DRP route, interest on demand not applicable until the date of ITAT order.

Pre-deposit Pending Appeal

- The budget announcement contained proposal to reduce the pre-deposit for filing of appeal to 10% of demand, from existing requirement of paying 20% of the demand for stay of full demand.

Block assessments

- The limitation period for passing of assessment order in case of block assessment [S. 296 (2025-ITA)]
 - Current limitation period – 12 months from the end of the quarter in which last of the authorisation for search was executed or requisition was made
 - Proposed to change the limitation period to 18 months from the end of the quarter in which the search or requisition was initiated
- Block assessment for “any other person” – Section 295 (2025-ITA)
 - The Block assessment provisions apply to “other person” as application to the person on whom the search was conducted
 - Whether the undisclosed income of “other person” pertained to the year immediately preceding the year of initiation of search and the year of initiation of search/requisition – then such preceding year and the tax year in which search was initiation – shall constitute the “block period”.
 - Where the undisclosed income of “other person” pertains only to a single tax year out of the block period, then such year shall be construed as the block period for carrying out the assessment.

Undisclosed assets/income

- Section 102 to 106 of the 2025-ITA contain sections corresponding to Section 68 to 69D of the 1961-ITA. These sections tax unexplained credits , unexplained investments, unexplained money or expenditure etc.
- Section 195 of the 2025-ITA imposes a tax of 60% on income covered under the above sections. (corresponding section 115BBE in 1961-ITA) in two scenarios -1) Taxpayer on its own; or 2) AO's detection during assessment
- **From tax year (FY) 2026-27, it is proposed to reduce tax on this income to 30%.**
- Section 443 of the 2025-ITA (corresponding to section 271AAC) provided for penalty of 10% of the tax payable under Section 195. The effective tax rate with penalty on undisclosed income and asset was around 66%.
- **It is proposed to omit Section 443 from the Act prescribing 10% penalty.**
- **In lieu of the omission of Section 443, it is proposed to cover the income referred under Section 195, as classified under “Misreporting of Income” under Section 439 (equivalent to penalty u/s 270A of 1961-ITA).**
- *If an income is reported in ITR and it remains unexplained – can it constituted under-reporting of income & taxable at 30%? Misreporting is always a consequence of under-reporting.*

Penalties

1. Waiver on misreporting
2. Rationalisation of Penalty into Fees
3. Other amendments



Penalty waiver for misreporting of income

- Currently, waiver of penalty u/s 270A and prosecution u/s 276C (*wilful attempt to evade tax*) & 276CC (*failure to furnish return of income*) is available in case of **under-reporting of income**, subject to the following conditions:
 - The tax and interest payable as per the assessment order is paid within the period specified in the notice of demand; and
 - No appeal is filed against the assessment order
- No waiver was possible for **misreporting of income**
- Proposed to extend immunity from penalty and prosecution to **misreporting of income** if the following **additional** conditions are satisfied:

| Nature of misreporting of income | Conditions for immunity – payment of additional tax |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Misreporting of income | 100% additional tax equal |
| [Only in 2025-ITA] Misreporting of income referred u/s 195 [unexplained credits , unexplained investments, unexplained money or expenditure] | 120% additional tax – typically will cover scenarios post AO's detection |

Penalty waiver for misreporting of income

- No immunity if prosecutions is already initiated under Chapter XXII under old and new laws. – no change.
- Effective date of amendment under old law – **1st March 2026** and under new law – **1st April 2026 – very crucial and to be noted especially under the 1961-ITA**
- Relevant Sections

| Particulars | 1961-Act | 2025-ITA |
|---------------------------------------------|-----------------|--------------|
| Penalty for under-reporting | S. 270A(2) | S. 439(2) |
| Penalty for mis-reporting | S. 270A(9) | S. 439(11) |
| Immunity from penalty and prosecution | S. 270AA | S. 440 |
| Prosecution sections for immunity | S. 276C & 276CC | S. 478 & 479 |
| Offence for which immunity is not available | Chapter XXII | Chapter XXII |

Rationalisation of penalty into Fees

- The budget proposes to convert certain penalties into fees in the **2025-ITA**. This will ensure mandatory collection of the levy and ease the administrative burden. Amendments:

| Existing Section Reference | Existing penalty | New section reference | Proposed Fee | Reference in 1961-ITA |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| 446 - Penalty for failure to get accounts audited (tax audit) | Lower of <ul style="list-style-type: none"> • 0.5% of turnover/ sales/ receipts; or • INR 1,50,000 | 428(c) | <ul style="list-style-type: none"> • INR 75,000 for delay up to 1 month; and • INR 1,50,000 thereafter | S. 271B |
| 447 – Penalty for failure to furnish Form 3CEB | INR 1,00,000 | 428(d) | <ul style="list-style-type: none"> • INR 50,000 for delay up to 1 month; and • INR 1,00,000 thereafter | S. 271BA |
| 454(1) – Penalty for failure to furnish SFT or reportable accounts | Penalty of Rs. 500 for everyday during which the failure continues | 427(3) | <ul style="list-style-type: none"> • INR 200 per day; subject to • INR 1,00,000 – maximum | S. 271FA |

Other amendments to Penalty provisions

- Other amendments in Penalty provisions:

| Existing Section Reference | Applicable penalty |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 446 – [Repurposed] Penalty for failure to furnish /inaccurate furnishing of Crypto info. | <ul style="list-style-type: none"> INR 200 for each day of failure; Prescribed Income-tax authority may impose penalty of ₹50,000 for inaccuracy or non-diligence |
| 454(1) – Penalty for failure to furnish SFT or reportable accounts; even after notice from tax authorities | <ul style="list-style-type: none"> INR1,000 for each day of failure; Maximum penalty to not exceed INR 1,00,000 (maximum penalty added by budget) |
| 466 – Penalty for failure to comply with provisions of Section 254 [equivalent of Section 133B – power to collect information during survey] | <ul style="list-style-type: none"> Maximum penalty increased from INR 1,000 to INR 25,000 |

Decriminalisation – Principles

- Procedural lapses such as non-production of books of account, documents etc. decriminalised.
- Only fine is being provided for minor offences.
- Punishment for other offences will be graded commensurate with the quantum of offence with only simple imprisonment and maximum imprisonment reduced to two years.
- From rigorous imprisonment to simple imprisonment in prescribed sections
- Maximum punishment is proposed to be limited to 2 years from its current 7 year and for the subsequent offences, it is reduced to 3 years from its current 7 years.
- Wherever punishment of offences is prescribed based on certain grading of amount of tax evaded, new grading of offences and its corresponding punishment is prescribed. **(Below INR 10 lakhs, INR 10-50 lakhs and Above INR 50 lakhs)**
- For amount of tax evaded does not exceeds 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.

Rationalisation of prosecution provisions

| Section-1961-ITA | Section – 2025-ITA | Description | Existing Punishment | Proposed Punishment |
|------------------|--------------------|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| 275A | 473 | Contravention of order made during search (non-removal of assets / books) | <ul style="list-style-type: none"> • Rigorous imprisonment - 2 years; and • Fine | <ul style="list-style-type: none"> • Simple imprisonment – 2 years; and • Fine |
| 275B | 474 | Failure to afford facility for inspection of books during search | <ul style="list-style-type: none"> • Rigorous imprisonment - 2 years; and • Fine | <ul style="list-style-type: none"> • Simple imprisonment – 2 years; or • Fine; or • Both |
| 276 | 475 | Removal, concealment, transfer or delivery of property to prevent tax recovery | <ul style="list-style-type: none"> • Rigorous imprisonment - 2 years; and • Fine | <ul style="list-style-type: none"> • Simple imprisonment – 2 years; and • Fine |

Rationalisation of prosecution provisions

| Section-1961-ITA | Section – 2025-ITA | Description | Existing Punishment | Proposed Punishment |
|------------------------|--------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 276B 276BB (TCS) | 476 477 (TCS) | Failure to deposit TDS / TCS <i>Section to include responsibility to ensure TDS on VDA transfer, winning from online games</i> | <ul style="list-style-type: none"> Rigorous imprisonment ≥ 3 months ≤ 7 years; and Fine | <i>Tax exceeding INR 50 Lakhs</i> <ul style="list-style-type: none"> Simple imprisonment upto 2 years; or Fine; or Both <i>Tax >10 Lakhs ≤ 50 Lakhs</i> Simple imprisonment upto 6 months; or Fine; or Both <i>Other Cases - Fine</i> |
| 276C | 478 | Wilful attempt to evade any, tax, penalty or interest Wilful attempt to evade payment of any, tax, penalty or interest | <i>Tax evaded > INR 2.5 Lakhs</i> <ul style="list-style-type: none"> Rigorous imprisonment ≥ 6 months ≤ 7 years; and Fine <i>Other cases</i> <ul style="list-style-type: none"> Rigorous imprisonment ≥ 3 months ≤ 2 years; and Fine | <i>Tax exceeding INR 50 Lakhs</i> <ul style="list-style-type: none"> Simple imprisonment upto 2 years; or Fine; or Both <i>Tax >10 Lakhs ≤ 50 Lakhs</i> Simple imprisonment upto 6 months; or Fine; or Both <i>Other cases - Fine</i> |

Rationalisation of prosecution provisions

| Section-1961-ITA | Section – 2025-ITA | Description | Existing Punishment | Proposed Punishment |
|------------------|--------------------|-----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 276CC | 479 | Wilful failure to file return of income within due date | <p>Tax evaded > INR 2.5 Lakhs</p> <ul style="list-style-type: none"> Rigorous imprisonment \geq 6 months \leq 7 years; and Fine <p>Other cases</p> <ul style="list-style-type: none"> Rigorous imprisonment \geq 3 months \leq 2 years; and Fine | <p>Tax exceeding INR 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 2 years; or Fine; or Both <p>Tax >10 Lakhs \leq 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 6 months; or Fine; or Both <p>Others – Fine</p> |
| 276CCC | 480 | Wilful Failure to furnish return of income setting forth undisclosed income | Imprisonment for a term \geq 3 months \leq 3 years and fine | <p>Tax exceeding INR 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 2 years; or Fine; or Both <p>Tax >10 Lakhs \leq 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 6 months; or Fine; or Both |

Rationalisation of prosecution provisions

| Section-1961-ITA | Section – 2025-ITA | Description | Existing Punishment | Proposed Punishment |
|------------------|--------------------|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 276D | 481 | Wilful failure to produce accounts and documents | Rigorous imprisonment for a term which may extend to one year and fine | Simple imprisonment for a term of up to six months or with fine or with both. |
| 277 | 482 | False statement in verification | <p>Tax evaded > INR 2.5 Lakhs</p> <ul style="list-style-type: none"> Rigorous imprisonment \geq 6 months \leq 7 years; and Fine <p>Other cases</p> <ul style="list-style-type: none"> Rigorous imprisonment \geq 3 months \leq 2 years; and Fine | <p>Tax exceeding INR 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 2 years; or Fine; or Both <p>Tax >10 Lakhs \leq 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 6 months; or Fine; or Both <p>Other cases – Fine</p> |
| 277A | 483 | Falsification of books of account or document, etc. | Rigorous imprisonment for a term \geq 3 months \leq 3 years and fine | Simple imprisonment for a term of up to 2 years and with fine. |

Rationalisation of prosecution provisions

| Section-1961-ITA | Section – 2025-ITA | Description | Existing Punishment | Proposed Punishment |
|------------------|--------------------|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 278 | 484 | Abetment of false return, etc. | <p>Tax evaded > INR 2.5 Lakhs</p> <ul style="list-style-type: none"> Rigorous imprisonment \geq 6 months \leq 7 years; and Fine <p>Other cases</p> <ul style="list-style-type: none"> Rigorous imprisonment \geq 3 months \leq 2 years; and Fine | <p>Tax exceeding INR 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 2 years; or Fine; or Both <p>Tax >10 Lakhs \leq 50 Lakhs</p> <ul style="list-style-type: none"> Simple imprisonment upto 6 months; or Fine; or Both <p>Other cases – Fine</p> |
| 278A | 485 | Punishment for second and subsequent offences | Rigorous imprisonment for a term \geq 6 months \leq 7 years and fine | Simple imprisonment for a term \geq 6 months \leq 3 years and fine |
| 280 | 494 | Disclosure of particulars by public servants | Imprisonment up to 6 months and with fine | Simple imprisonment up to 1 month or with fine or with both. |

Foreign Asset disclosure scheme



Foreign assets disclosure scheme

- **One-time 6-month foreign asset disclosure scheme for small taxpayers to disclose their overseas income or asset**

| Asset / Income | Threshold | Amount payable |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Category A - Undisclosed foreign asset or undisclosed foreign income | Aggregate FMV of the undisclosed asset (FMV computed in prescribed manner) and undisclosed foreign income does not exceed INR 1 Crore | Aggregate of: (i) Tax @ 30% on value of asset on 31 st March 2026 (ii) Tax @ 30% on undisclosed foreign income (iii) Additional 100% of tax in (i) and (ii) above |
| Category B - Asset located outside India acquired from income accruing outside India when assessee was non-resident, but not disclosed in FA schedule when he become resident | FMV of the asset located outside India does not exceed INR 5 crores | Fee of INR 1 Lakh <div style="border: 1px solid orange; border-radius: 50%; padding: 10px; display: inline-block; color: white; text-align: center;"> <p>Major relief to foreign ESOP, small bank a/c holders of returning Indians</p> </div> |

- **Asset or income disclosed above shall not be included in total income for any AY in Income-tax and Black Money Act, subject to payment of due taxes.** Immunity from Penalty and prosecution also available.

Foreign assets disclosure scheme

- **Non-applicability**
 - Income or assets representing directly or indirectly, **proceeds of crime in respect of which proceedings under PMLA is pending**
 - Income or asset related to AY for which assessment is completed under Black Money Act.
- Where the proceedings under Black Money Act and/or 1961-ITA are pending, the declaration under this scheme shall be considered by the AO while finalising the assessment order.
- The Scheme shall come into effect on a date to be notified by the Government.

Other amendments

- Black Money Act – relaxation from prosecution proceedings
 - Finance Act 2024 provided relief from penalty under Black Money Act for failure to disclose foreign assets (excluding immovable property) with a total value under INR 20 lakh.
 - It is now proposed to extend this relief even for prosecution proceedings.
 - Accordingly, the change is proposed to be effective retrospectively from 1 October 2024.

Co-operative societies – expanded benefit

- Primary societies engaged in cotton seed and cattle feed raised or grown by its members are also covered under the provisions of Section 149, allowing deduction of income.

- Provisions relating to Federal co-operative society
 - Deduction of dividend income allowed if:
 - Dividends received from its investment with any company made on or before 31st January 2026; **and**
 - has been distributed to its member at least one month before the due date of filing the ITR
 - Exemption not available from tax year 2029-30 (AY 2030-31).

- Federal co-operative societies are also eligible for lower tax rate under Section 203 @ 22%.

Other Exemptions

- Disability of pension received by an individual who has been invalidated out of armed forces, has been exempted from tax.
- Interest on compensation amount awarded by Motor Accidents Claims Tribunal to individual or his legal heir under Motor Vehicles Act, 1988, has been exempted from tax.

Not-for-profit organisations

- **Merger of Charitable Trusts or Institutions**
 - Section 352 of the 2025-ITA was ambiguous to exempt merger of NPO with other non-registered NPO having similar objects, **only** when the merger does not fulfil the prescribed conditions. [Sl. 8 of the Table]
 - The relevant clause is amended to provide that tax on accreted income shall be payable if:
 - NPO is merged with any other entity other than a registered NPO;
 - NPO is merged with another registered NPO with similar objects, but specified conditions are not fulfilled
 - NPO is merged with another registered NPO not having same or similar objects.
 - **It is specifically clarified that Section 352 shall not apply if NPO merges with other NPO having similar objects where the specified conditions are fulfilled.**
- Person eligible for registration as eligible, the reference in 332(1)(f) is extended to University and Hospitals substantially funded by Government – Sl. No. 17 and 18 of Schedule VII – **filling the drafting gap**
- NPO are also enabled under the new Act to file belated return - **filling the drafting gap**

Not-for-profit organisations

- **Certain funds not required to obtain registration as NPO for claiming exemption – S. 332(1)(f) (2025 Act)**
 - PM National Relief Fund or PM CARES Fund
 - PM's Aid to Students Fund
 - National Foundation for Communal Harmony
 - Swachh Bharat Kosh
 - Clean Ganga Fund
 - CM's Relief Fund or Lieutenant Governor's Relief Fund in respect of State / Union Territory

Tonnage taxation

- The core-activities of tonnage company to now also include on-board and on-shore activities pertaining to inland vessels.
- Tonnage tax company shall have to comply with minimum training requirement as prescribed by Inland Waterways Authority as may be notified.

Transfer Pricing and Non- resident

1. Transfer Pricing
2. Non resident – Toll Manufacturing
3. Non resident – Visiting Expats
4. Non resident – Data Centres



Transfer Pricing

- Time-limit for passing TP order – retrospective amendment w.e.f. 01.06.2007
 - Section 92CA provides that the TPO should pass the order 60 days prior to limitation period u/s 153.
 - To avoid further confusion the time limits for passing the TP order has been defined:

| Expiry of period of limitation for assessment | Due date for TP order (1961-ITA) | Due date for TP order (2025-ITA) |
|-----------------------------------------------|----------------------------------|----------------------------------|
| 31 st March (non-leap year) | 30 th January | 31 st January |
| 31 st March (leap year) | 31 st January | 31 st January |
| 31 st December | 01 st November | 31 st October |

- Modified return in case of APA**

- Where a APA is entered into, subsequent to the filing of return for a given year, and the income is modified in such APA,
- The entity which entered into APA, as well as the Associated entity shall be eligible to file modified return
- Time limit for modified return – 3 months from end of the month in which the APA was entered into.

Transfer Pricing – Budget announcements

- Safe-harbour announcements in the budget

| Transaction | Existing rate | Proposed Rate | Additional points |
|------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------|-------------------------------------------------------------------------------------------|
| Software development services, ITeS, KPO and Contract R&D services – Collectively known as “Information Technology Services” | 17% - 24% | 15.5% | Applicability threshold – Turnover limit increased from INR 300 crore to INR 2,000 crore. |
| Data center services rendered by resident to foreign related party | | 15% on cost | Domestic entity acting as a reseller of such services |
| Non-residents undertaking component warehousing in bonded warehouses | | 2% of invoice value | Effective tax of 0.7%. (lower than in competing jurisdictions). |

- Unilateral APAs to be fast-tracked with a 2 year deadline (extendable by 6 months).

Non resident – Toll Manufacturing

| Person eligible | Exempted Income | Conditions |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>A Foreign company, providing capital goods, equipment or tooling to the contract manufacturer for use in electronic manufacturing in India</p> <p>[Schedule IV – Sl. No. 13A</p> | <p>Any Income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India</p> | <p>(a) Ownership of such capital goods, equipment or tooling remains with the foreign company;</p> <p>(b) Such capital goods, equipment or tooling is under the control and direction of the contract manufacturer;</p> <p>(c) the contract manufacturer is located in a custom bonded area, that is, a warehouse referred to in section 65 of the Customs Act, 1962 (52 of 1962);</p> <p>(d) the contract manufacturer produces electronic goods on behalf of the foreign company for a consideration;</p> <p>(e) such exemption shall be available up to the tax year 2030-2031.</p> |

Non residents – Visiting Expats

| Person eligible | Exempted Income | Conditions |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>An individual, being a non- resident for a period of five consecutive tax years immediately preceding the tax year during which he visits India for the first time for rendering services in India in connection with any scheme as may be notified by the Central Government.</p> <p>[Schedule IV – Sl. No. 13B]</p> | <p>Any Income which accrues or arises outside India, and is not deemed to accrue or arise in India.</p> | <p>(a) Such individual, during the relevant tax year renders any service in India in connection with any scheme as may be notified by the Central Government;</p> <p>(b) such exemption shall not be available beyond a period of five consecutive tax years commencing from the first tax year during which he visits India in connection with such scheme; and</p> <p>(c) such other conditions, as may be prescribed.</p> |

Non-residents - Data Center Exemption

| Person eligible | Exempted Income | Conditions |
|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>A foreign company</p> <p>[Schedule IV – Sl. No. 13C]</p> | <p>Any Income accruing or arising in India or deemed to accrue or arise in India by way of procuring data centre services from a specified data centre.</p> <p>The terms “Data centre”, “Data centre services” and “specified data centre” have been defined.</p> | <p>(a) Such foreign company is Notified by the Central Government in this behalf;</p> <p>(b) such foreign company does not own or operate any of the physical infrastructure or any resources of the specified data centre;</p> <p>(c) all sales by such foreign company to users located in India are made through a reseller entity being an Indian company;</p> <p>(d) such foreign company maintains and furnishes such information in such form and manner, as may be prescribed; and</p> <p>(e) such exemption shall be available up to tax year ending on the 31st March, 2047.</p> |

Thank you



Globeview Advisors LLP