

PKC Management Consulting

BUDGET 2026

#DecodeBudgetwithPKC

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LEADERSHIP VIEW

Swetha Kochar – Partner, PKC

Budget 2026-27 reflects a mature, confident, and policy-driven approach to India's economic growth. By focusing on strategic investments, technology adoption, and inclusive enterprise development, the Budget positions India for sustained prosperity and global competitiveness.



Its emphasis on capital expenditure, MSME empowerment, and human capital development demonstrates a clear commitment to building a future-ready economy, while reforms in taxation and governance simplify compliance and strengthen investor confidence.

The Budget also focuses on tax simplification and compliance ease, ensuring clarity for individuals and businesses. Corporate reforms and procedural improvements strengthen transparency and make India a more investor-friendly economy.

Additionally, the Budget's push for digital governance, streamlined regulatory frameworks, and cross-border trade facilitation reflects a forward-looking strategy that integrates India into the global economy, making it easier for businesses and citizens alike to thrive.

Finally, the focus on inclusive growth through skill development, regional infrastructure, and citizen-centric initiatives ensures that prosperity reaches every corner of the country, reinforcing the vision of a **Viksit Bharat by 2047**.

In short, this Budget is not just a set of numbers—it's a blueprint for long-term resilience, opportunity, and innovation.

AT A GLANCE

- **Return Filing & Timelines:** Due dates for filing returns, revised returns, and updated returns have been extended and liberalised.
- **TCS Rationalisation:** Multiple TCS rates replaced with uniform or reduced rates across specified transactions, including overseas tour packages and LRS remittances.
- **Senior Citizens & Individuals:** Exemptions and procedural relaxations introduced for interest income and compensation-related receipts.
- **Penalty & Prosecution Provisions:** Several offences decriminalised and penalties rationalised or converted into fees.
- **Minimum Alternate Tax (MAT):** MAT rate reduced to 14% with revised provisions for credit utilisation.
- **Cooperative Societies:** Dividend-related deductions extended to the new tax regime and scope of eligible activities expanded.
- **Capital Gains & Securities Taxation:** Clarifications and structural amendments made to capital gains and buyback-related provisions.
- **International Taxation:** APA provisions liberalised and select cross-border tax provisions rationalised.
- **Tax on unexplained income reduced:** Rate cut from 60% to 30% and separate 10% penalty removed, aligning it with the regular penalty framework.
- **Diesel duty deferred:** ₹2 per litre additional excise duty on unblended diesel postponed till 31 March 2028.
- **Tobacco NCCD rationalised:** Tariff rate increased from 25% to 60% while effective duty remains 25%, ensuring revenue neutrality.



Tax Rates and Compliance Ease

Tax Rates and Compliance Ease

Income-tax Rates Applicable for AY / Tax Year 2026–27

For the Assessment Year 2026–27 under the Income-tax Act, 1961 and the Tax Year 2026–27 under the Income-tax Act, 2025, no changes have been proposed in:

- Income-tax rates,
- Slab structures,
- Surcharge rates and caps, or
- Health and education cess.

Accordingly, the rates applicable for AY / Tax Year 2026–27 remain the same as those applicable for AY / Tax Year 2025–26 under both enactments.

A.Default Tax Regime – Comparative Slab Rates (AY / Tax Year 2026–27)

Applicable to: Individuals / HUF / AOP / BOI / Artificial Juridical Persons

Total Income	Applicable Rates
Upto ₹ 4,00,000	Nil
₹ 4,00,001 – ₹ 8,00,000	5%
₹ 8,00,001 – ₹ 12,00,000	10%
₹ 12,00,001 – ₹ 16,00,000	15%
₹ 16,00,001 – ₹ 20,00,000	20%
₹ 20,00,001 – ₹ 24,00,000	25%
Above ₹ 24,00,000	30%

Tax Rates and Compliance Ease

B. Optional Old Regime – Individuals and HUF

Category	Applicable Rates
Individuals (below 60 years)	0% / 5% / 20% / 30%
Senior citizens (60 to <80 years)	Higher basic exemption limit
Super senior citizens (80 years and above)	₹5 lakh exemption

C. Rates for Other Categories of Assessee

Total Income	Applicable Rates
Co-operative societies	10% / 20% / 30%
Firms	30%
Local authorities	30%
Domestic companies	20%* / 30%
Foreign companies	35%

*25% applies where total turnover or gross receipts of FY 2023-24 do not exceed ₹ 400 crore.

Tax Rates and Compliance Ease

D. Surcharge Rates – Individuals / HUF / AOP / BOI

Total Income (₹)	Surcharge Rate
50 lakh – 1 crore	10%
1 crore – 2 crore	15%
2 crore – 5 crore	25%*
Above 5 crore	37%*

- Capped at 15% on dividend income and capital gains (sections 196–198)
- For section 202 cases (Individuals and HUFs opting for taxation under new regime), surcharge restricted to 25%
- Marginal relief available.

Tax Rates and Compliance Ease

Alignment of Due Dates for Employee and Employer Welfare Contributions

ESI and PF contributions consist of an employee's share deducted from salary and an employer's share paid separately, both of which must be deposited by the employer. ESI contributions are due within 15 days from the end of the relevant month, while PF contributions are due within 15 days from the end of the month in which salaries are paid.

PRE BUDGET	POST BUDGET
<p>Employer contributions to PF and ESI are deductible if paid by the return filing due date under Section 139(1), while employee contributions are deductible only if deposited within the due dates prescribed under the PF and ESI laws.</p>	<ul style="list-style-type: none">Employee contributions to PF and ESI will now be allowed as a deduction if they are paid on or before the due date for filing the income tax return under Section 139(1), bringing them in line with the rules applicable to employer contributions.This amendment will take effect from the 1st day of April, 2026

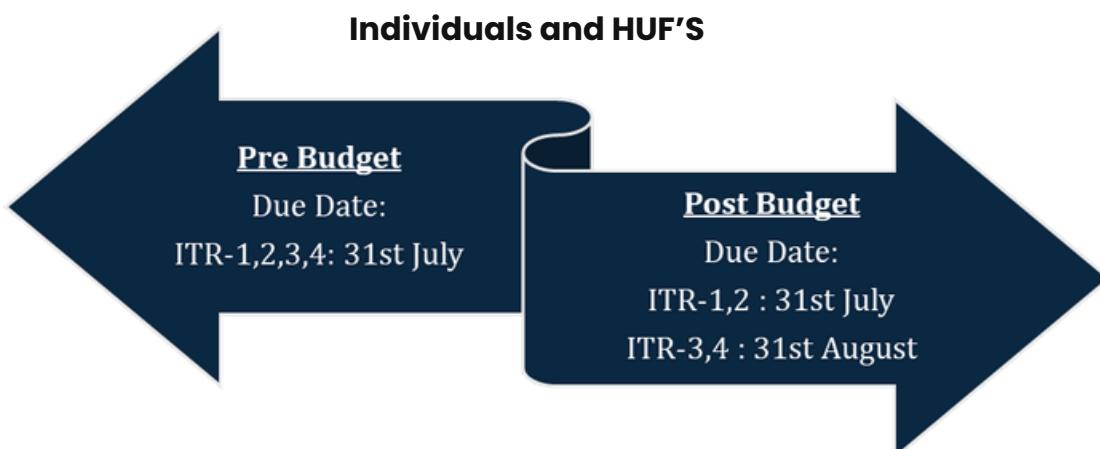
Hence, both employee and employer contributions can now be claimed as expenses against profits if paid on or before the due date under Section 139(1), thereby avoiding disallowances due to minor payment delays. This change reduces litigation, simplifies compliance, and brings uniformity in the tax treatment of employee and employer contributions.

Tax Rates and Compliance Ease

Revised Due Dates for Filing Income-tax Returns in Non-Audit Cases

PRE BUDGET	POST BUDGET
<p>Before Budget 2026, for the Financial Year 2025–26, the due date for filing Income Tax Returns for individuals and Hindu Undivided Families (HUFs) not subject to audit including ITR-1, ITR-2, ITR-3, and ITR-4 was 31st July 2026.</p>	<ul style="list-style-type: none">After Budget 2026, for the Financial Year 2025–26, the due dates for filing Income Tax Returns are as follows:Individuals and HUFs filing ITR-1 and ITR-2 must submit their returns by 31st July 2026, while taxpayers, including partners of non-audit firms, filing ITR-3 and ITR-4 (non-audit cases) have an extended due date of 31st August 2026.

The amendment gives non-audit taxpayers more time to finalize accounts and file returns. The amendment gives non-audit taxpayers more time to finalize accounts and file returns accurately. This reduces errors, lowers penalties, and makes compliance simpler and more efficient.

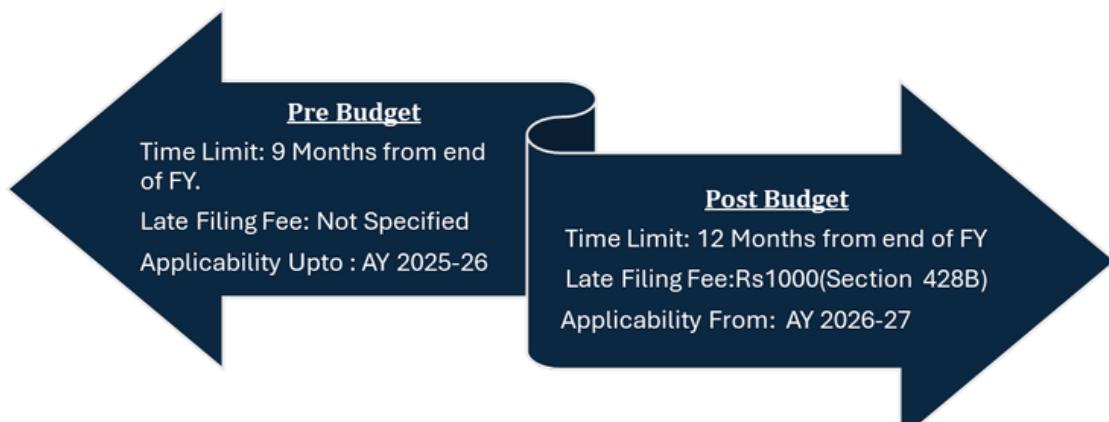


Tax Rates and Compliance Ease

Extension of Time Limit for Filing Revised Returns

PRE BUDGET	POST BUDGET
<p>If a taxpayer discovers any errors or omissions in the originally filed Income Tax Return (ITR), such as incorrect income reporting or missed deductions, they are permitted to file a revised return to rectify such mistakes.</p> <p>Earlier, a revised ITR could be filed within 9 months from the end of the relevant financial year or before the completion of assessment, whichever was earlier. Accordingly, for AY 2025-26, the due date for filing a revised return was 31 December 2025.</p>	<p>The prescribed time limit for filing a revised income tax return under Section 263(5) of the Income-tax Act, 2025 is proposed to be extended from 9 months to 12 months from the end of the relevant tax year.</p> <p>Additionally, under Section 428(b), a fee of ₹1,000 be payable if the revised return is not furnished within the prescribed time. These amendments will come into effect from 1st April 2026 for the tax year 2026-27 and subsequent years.</p>

This extension allows taxpayers who file their belated returns late in the year to still revise their returns and correct omissions or errors, thereby reducing disallowances, minimizing litigation, and providing greater flexibility for compliance.



Tax Rates and Compliance Ease

Permitting Updated Returns Where Losses Are Reduced

Filing an updated return allows a taxpayer to voluntarily revise the return to correct errors.

PRE BUDGET	POST BUDGET
<p>Updated returns could be filed only if they resulted in additional tax payable, and reduction of losses was not clearly permitted.</p> <p>This discouraged voluntary correction of over-reported losses.</p>	<p>The Budget explicitly permits filing of an updated return even when losses are reduced, subject to payment of applicable additional tax.</p> <p>This amendment is effective from 1 April 2026, applicable from FY 2026–27 onwards.</p>

It encourages truthful reporting, improves data integrity, and reduces future disputes during assessments.

Tax Rates and Compliance Ease

Allowing Updated Returns Post Issuance of Reassessment Notices

Filing of an updated return after issuance of a reassessment notice refers to the taxpayer's ability to voluntarily revise income details even after reassessment proceedings have been initiated.

PRE BUDGET	POST BUDGET
<p>Once a notice for reassessment was issued, filing an updated return for that assessment year was not permitted.</p> <p>Taxpayers had to proceed only through reassessment proceedings, increasing litigation.</p>	<p>The Budget allows filing of an updated return even after issuance of a reassessment notice, subject to prescribed conditions and payment of an additional 10% of the aggregate of tax and interest payable.</p> <p>This amendment is effective from 1 April 2026, applicable from FY 2026–27 onwards.</p>

It encourages faster dispute resolution and voluntary tax payment, reducing prolonged reassessment litigation.

Corporate & Business Tax Reforms

Corporate & Business Tax Reforms

Rationalization of Minimum Alternate Tax provisions

Minimum Alternate Tax (MAT) is a mechanism to ensure that companies with substantial book profits pay a minimum level of tax, even if their taxable income under normal provisions is low due to exemptions or deductions. Where MAT exceeds the normal tax liability, the company is required to pay MAT, with the excess generally allowed as credit for set-off in future years

PRE BUDGET	POST BUDGET
<ul style="list-style-type: none">Under the existing framework, MAT was levied at 15% of book profits (other than for IFSC units) and applied only to companies opting for the old tax regime.Any excess MAT paid over normal tax could be carried forward as MAT credit for up to 15 years and set off in future years where normal tax exceeded MAT.	<ul style="list-style-type: none">The Budget proposes to treat MAT paid under the old tax regime as a final tax, with no fresh MAT credit allowed, and reduces the MAT rate to 14% of book profits.Set off of existing MAT credit will be allowed only under the new tax regime, subject to limits up to 25% of tax liability for domestic companies and up to the difference between normal tax and MAT for foreign companies. These amendments will be effective from 1st April 2026.

Exclusion of certain non-residents business under presumptive taxation from Minimum Alternate Tax

Currently, some foreign companies and non-residents opting for presumptive taxation under Section 61 are excluded from MAT, but others are not.

To ensure uniform treatment among non-residents using presumptive taxation, it is proposed to exclude two additional businesses from MAT

1. Operation of cruise ships
2. Providing services or technology for setting up an electronics manufacturing facility in India for a resident company

This aligns the treatment of all specified non-resident businesses opting for presumptive taxation.

These amendments will take effect from the 1st day of April, 2026

Corporate & Business Tax Reforms

Deduction for non-life insurance business where TDS was deducted and paid later

This provision deals with allowing deduction of expenses in the hands of a non-life insurance company where TDS was deducted but deposited after the prescribed due date.

It clarifies the timing of deduction to align tax computation with actual TDS compliance.

PRE BUDGET	POST BUDGET
<ul style="list-style-type: none">If TDS was deducted but paid late, the related expense was disallowed under section 40(a) (ia) and allowed only in the year of actual TDS payment.This created timing mismatches and distortions in taxable income for non-life insurers.	<ul style="list-style-type: none">The Budget allows deduction of such expenses in the same year, provided TDS is deducted and paid before the due date of filing the return.This amendment is effective from 1st April 2026, applicable from FY 2026–27 onwards.

It reduces temporary disallowances, smoothens taxable income recognition, and aligns expense deduction with commercial reality.

Compliance burden and litigation for non-life insurance companies are significantly reduced.

Corporate & Business Tax Reforms

Change In Taxation Of Buyback Shares From Dividend To Capital Gains, With Special Tax Rates To Promoters

SECTION	PRE BUDGET	POST BUDGET
Taxation of Buyback of Shares	<p>Consideration received by a shareholder on buy-back of shares is treated as dividend income under section 2(40) (f).</p> <p>The cost of acquisition of extinguished shares is recognised separately as capital loss under section 69.</p>	<p>Consideration received on buy-back will now be taxed under “Capital Gains” instead of dividend income. For promoters: an effective tax of 30% applies (regular tax plus additional tax)</p> <p>For promoter companies: effective tax is 22%. This rationalises taxation and addresses the distinct influence of promoters in buy-back transactions.</p>

Increase In Tax Rates Of Securities Transaction Tax

SECTION	PRE BUDGET	POST BUDGET
Securities Transaction Tax (STT)	<p>STT applies on transactions in specified securities executed through recognised exchanges. Current rates for derivatives are:</p> <ul style="list-style-type: none"> • Sale of an option in securities: 0.1% of option premium • Sale of an option when exercised: 0.125% of intrinsic value • Sale of a future in securities: 0.02% of traded price 	<p>With the objective of curbing speculative trading activities, STT Rates are increased to:</p> <ul style="list-style-type: none"> • Sale of an option in securities: 0.15% of option premium • Sale of an option when exercised: 0.15% of intrinsic value • Sale of a future in securities: 0.05% of traded price.

Indirect Tax Updates

GST



Indirect Tax Updates – GST

SECTION	PRE BUDGET	POST BUDGET
Clause 137 – Section 15(3) (Value of Supply)	Post-sale discounts were allowed as deduction from value of supply only if such discounts were agreed at or before the time of supply and were specifically linked to the relevant invoices.	Requirement of prior agreement removed. Post-sale discounts may be allowed through credit notes under section 34 , provided the recipient reverses the proportionate input tax credit attributable to such discount.
Clause 138 – Section 34 (Credit Notes)	Section 34 did not expressly refer to valuation provisions under section 15 , resulting in ambiguity in treatment of credit notes affecting value of supply.	Reference to Section 15 inserted, clearly linking credit notes with valuation provisions.
Clause 139 – Section 54(6) (Provisional Refund)	Refunds arising from an inverted duty structure, i.e., situations where the tax rate on inputs exceeds the tax rate on output supplies leading to accumulation of unutilised input tax credit, were not covered under the provisional refund mechanism. Provisional refund denotes the grant of a portion of the refund amount at an initial stage, before completion of detailed verification by the tax authorities.	Provisional refund facility extended to inverted duty structure refunds.

Indirect Tax Updates – GST

SECTION	PRE BUDGET	POST BUDGET
Clause 139 – Section 54(14) (Refund Threshold)	Refund not sanctioned where the refund amount was less than ₹1,000 , including exports with payment of tax.	Threshold limit of ₹1,000 removed for refunds on export of goods with payment of tax.
Clause 140 – Section 101A (Appellate Mechanism)	Appeals arising from conflicting advance rulings of different States or Union Territories could not be disposed of, as the National Appellate Authority had not been constituted and no alternate appellate forum was available.	The Central Government may notify an existing authority or tribunal to hear such appeals. During this period, provisions relating to the National Appellate Authority shall not apply, enabling timely disposal of appeals.
Clause 141 Section 13(8)(b) – Place of Supply (Intermediary Services)	Place of supply deemed to be location of supplier for intermediary services, even when services were provided to a foreign recipient, resulting in levy of GST and denial of export benefit.	Omits section 13(8)(b) - place of supply for intermediary services; place of supply to be determined under general rule in section 13(2) Place of Supply (General Rule): The place of supply of services is generally the location of the recipient. If the recipient's location is not known, the supplier's location is used. This applies when either the supplier or recipient is outside India.

Indirect Tax Updates – GST

OVERALL PRACTICAL IMPACT OF GST AMENDMENTS

1. Cash Flow and Working Capital Relief

The amendments allow provisional refunds for inverted duty structure and remove the ₹1,000 refund threshold, enabling exporters and manufacturers to access input tax credits faster, reduce blocked working capital, and improve liquidity for day-to-day operations.

2. Alignment with Commercial Reality

Post-sale discounts can now be adjusted through credit notes without prior agreements, and credit notes are explicitly linked to valuation provisions. This reduces disputes, ensures correct ITC reversal, and aligns GST compliance with actual business practices.

3. Streamlined Dispute Resolution

The Central Government can notify an interim authority or tribunal to hear pending appeals in the absence of the National Appellate Authority, ensuring timely disposal of cases, reducing legal uncertainty, and providing businesses with clarity on conflicting advance rulings.

Rationalization of TDS/TCS

Rationalization of TDS/TCS

Application for lower or nil deduction of TDS/TCS

Application for lower or nil deduction of TDS/TCS is a digital mechanism through which taxpayers seek reduced or zero tax deduction/collection based on their estimated tax liability.

It leverages online verification and system-based approvals to avoid excess tax collection.

PRE BUDGET	POST BUDGET
<ul style="list-style-type: none">The process was largely manual, fragmented, and TDS-centric, involving physical filings, limited system checks, and longer approval timelines.TCS relief lacked a streamlined digital workflow, causing delays and cash-flow blockage.	<ul style="list-style-type: none">The Budget enables a fully digitised, unified online process for both TDS and TCS, supported by automated data validation and risk-based approvals.End-to-end electronic processing reduces human intervention and processing time and it is effective from 1st April, 2026.

Filing of declaration for no deduction of TDS by investors

Filing of declaration for no deduction of TDS allows eligible investors to declare their nil tax liability so that no tax is deducted on specified incomes.

PRE BUDGET	POST BUDGET
<ul style="list-style-type: none">Declarations (like Forms 15G/15H) were often manual or semi-digital, with limited system validation and higher risk of errors or misuse.Paper handling and delayed reporting increased compliance burden for both investors and deductors.	<ul style="list-style-type: none">The Budget mandates a fully digital and automated filing and verification framework for no-TDS declarations, integrated with PAN and income data.This change is effective from 1st April 2026 and applies from FY 2026-27 onwards.

Rationalization of TDS/TCS

Filing of declaration for no deduction of TDS (effective from 1st April 2027):

Applies to individuals holding listed securities in demat form who are eligible to submit Form 15G (income below the basic exemption limit of ₹2,50,000 / ₹4,00,000, as applicable) or Form 15H (senior citizens with nil tax liability).

ASPECT	PRE BUDGET	POST BUDGET
Recipient of Declaration	Declarations had to be submitted separately to each payer (mutual funds and listed companies).	Declarations may be filed with a depository (CDSL/NSDL) , which will transmit them to the payer (mutual funds and listed companies).
Frequency of Reporting by Payers	Reporting was required on a monthly basis .	Reporting frequency has been rationalised to a quarterly basis .

The measure simplifies compliance for investors, including senior citizens, by allowing a single Form 15G or 15H to be filed with the depository instead of multiple payers. It reduces reporting burden through quarterly reporting and helps senior citizens avoid unnecessary TDS where they have nil tax liability.

Rationalization of TDS/TCS

Requirement to obtain TAN for Purchase of property from non-resident TDS (effective from 1st October 2026):

PRE BUDGET	POST BUDGET
<p>Any person purchasing immovable property from a non-resident was required to obtain a TAN, deduct and deposit TDS under Section 195, and file the TDS return in Form 27Q.</p>	<p>Resident individuals and HUFs are exempted from obtaining TAN for such transactions, and the TDS compliance mechanism is aligned with the procedure applicable to purchase of immovable property from a resident individual.</p>

TDS on supply of manpower (effective from 1st April 2026):

This TDS provision is primarily applicable to Persons engaging contractors or agencies for supply of manpower, and contractors or manpower supply agencies providing labour or personnel services.

PRE BUDGET	POST BUDGET
<p>Ambiguity existed on whether manpower supply constituted “work” (194C) or “technical services” (194J).</p>	<p>Supply of manpower has been clarified to fall within the definition of “work” for TDS purposes (194C).</p>

Rationalization of TDS/TCS

NO TDS REQUIRED ON INTEREST INCOME CREDITED TO COOPERATIVE BANKING SOCIETIES

PRE BUDGET

Section 393(4) of the Income-tax Act, 2025 did not explicitly state that interest (other than interest on securities) paid to cooperative banking societies was exempt from TDS.

This lack of clarity led to uncertainty and, in some cases, unnecessary deduction of TDS on such interest payments.

POST BUDGET

The section has been amended to clearly provide that no TDS shall be deducted on interest income, other than interest on securities, paid to cooperative societies engaged in banking, including cooperative land mortgage banks.

The amendment aligns the provision with the Income-tax Act, 1961 and removes interpretational ambiguity.

The clarification brings certainty and uniformity in TDS application, avoids unnecessary tax deductions and refunds, thereby easing compliance for both banks and deductors.

Rationalization of TDS/TCS

Rationalisation of TCS rates

Section 394(1) of the Act provides multiple rates for collection of tax at source (TCS). It is proposed to rationalize the rates of TCS by providing uniform rates to the extent possible.

These amendments are aimed at simplifying the TCS framework and will take effect from 1 April 2026.

SI .NO	Item/Transaction	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 (coal, lignite, iron ore)	1%	2%
5	Remittance under RBI's Liberalised Remittance Scheme (LRS) for education/medical if > ₹10 lakh	5%	2%
6	Sale of overseas tour programme packages (including travel, hotel, boarding, lodging, etc.)	5%/20%	2%

The reduction of TCS to a flat 2% lowers the upfront cost of overseas travel and improves liquidity for travellers. It also simplifies compliance and reduces temporary cash flow blockage for individuals.



Assessment Reforms & Penalties

Assessment Reforms & Penalties

Relaxation of conditions for prosecution under the Black Money Act

Earlier, under the Black Money Act, any willful non-disclosure of foreign income or assets attracted prosecution, including rigorous imprisonment and fines, irrespective of the value involved.

In Budget 2026, the law has been relaxed by stating that no prosecution will be initiated for minor non-disclosures of foreign assets (except immovable property) if the total value is up to ₹20 lakh.

These amendments shall take effect retrospectively from the 1st day of October, 2024.

Penalty provisions introduced for non-compliance related to crypto-asset transaction reporting:

Provision	PRE BUDGET	POST BUDGET
Penalty for non-furnishing or furnishing inaccurate information in statement of crypto-asset transactions (Section 509 read with Section 446)	Section 509 required prescribed reporting entities to furnish statements of crypto-asset transactions, but no specific penalty was prescribed for non-furnishing or furnishing inaccurate information.	Section 446 is amended to introduce a penalty of ₹200 per day for non-furnishing of the statement and a penalty of ₹50,000 for furnishing inaccurate particulars and failure to correct such inaccuracy.
Effective date	No penal consequence specified.	Amendment effective from 1 April 2026.

Assessment Reforms & Penalties

Rationalization of prosecution proceedings

Following changes in the nature and period of punishment in section 473 to 485 & 494 are proposed based on the principles of decriminalisation

Section	PRE BUDGET	POST BUDGET
Section 473 Contravention of order made under section 247 (Search & Seizure)		
Section 474 Failure to provide required facilities for inspection of books of account or documents during search proceedings.	"rigorous imprisonment for a term which may extend to two years and shall also be liable to fine"	"simple imprisonment upto two years and fine"
Section 475 Covers offences relating to removal, concealment, transfer, or delivery of property to prevent tax recovery.		
Section 476 Failure to deposit TDS deducted with the Central Government.	"with rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and shall also be liable to fine."	Tax > ₹50 lakh: Simple imprisonment up to 2 years, or fine, or both. Tax > ₹10 lakh and ≤ ₹50 lakh: Simple imprisonment up to 6 months, or fine, or both. Other cases: Fine only.
Section 477 Failure to credit tax collected at source (TCS) to the account of the Central Government.		

Assessment Reforms & Penalties

Section	PRE BUDGET	POST BUDGET
Section 478 Wilful attempt to evade tax, penalty or interest		"Tax evaded: " Above ₹50 lakh: simple imprisonment of 2 years with fine or both
Section 479 Wilful failure to furnish return of income	"Tax evaded > ₹25 lakh: Rigorous imprisonment from 6 months–7 years imprisonment + fine. Others: 3 months–2 years imprisonment + fine.	Above ₹10 lakh but below ₹50 lakhs: with simple imprisonment of 6 months with fine or both with fine, in any other case
Section 482 False statement in verification		
Section 484 Abetment of false return, etc.		
Section 480 Failure to furnish return of income in search cases.	"With imprisonment for a term which shall not be less than three months but which may extend to three years and shall also be liable to fine "	Tax evaded > ₹50 lakh: Simple imprisonment up to 2 years, or fine, or both. Tax evaded > ₹10 lakh and ≤ ₹50 lakh: Simple imprisonment up to 6 months, or fine, or both. Other cases: Fine only.
Section 481 Failure to produce accounts and documents	Rigorous imprisonment upto 1 year or with fine, or with both.	Simple imprisonment for upto 6 months, or with fine, or with both.

Assessment Reforms & Penalties

Section	PRE BUDGET	POST BUDGET
Section 483 Falsification of books of account or document, etc	Rigorous imprisonment from 3 months to 2 years, along with a fine.	Simple imprisonment for a term upto 2 years and shall also be liable to fine
Section 485 Punishment for second and subsequent offences.	"With Rigorous imprisonment for a term which shall not be less than 6 months upto 7years, and with fine"	"Simple imprisonment upto one month, or with fine, or with both"
Section 494 Disclosure of particulars by public servants.	"With imprisonment which may extend to six months, and shall also be liable to fine"	

4. Rationalizing the period of block in case of other persons

Section 295 of the Act provides, *inter alia*, that where the Assessing Officer is satisfied that any undisclosed income belongs to or pertains to or relates to any person, other than the person in respect of whom a search was initiated under section 247 or requisition was made under section 248,

Further, under the existing provisions of block assessment, the block period is the same for the specified person (the person in respect of whom the block assessment is being carried out) and the other person (any person, other than the specified person, to whom the undisclosed income relates). This results in increased compliance burden where undisclosed income relating to a third person pertains only to a single tax year, despite no search or requisition being initiated against such person.

Accordingly, it is proposed to amend section 295(2) of the Act to limit the block period in the case of a third person.

Assessment Reforms & Penalties

Time limit to complete block assessment

- Currently, an assessment or reassessment order under section 294 must be completed within 12 months from the end of the quarter in which the last search authorisation was executed or requisition was made.
- It is proposed to extend the time limit for completion of block assessment to eighteen months from the date of initiation of search or requisition search as the reference point to decide the date of limitation for block assessment where any search has been initiated.
- This amendment shall take effect from 1st April, 2026, for searches or requisitions initiated or made on or after that date.

5. Rationalisation of Penalties into Fee

Section	PRE BUDGET	POST BUDGET
Section 446 Failure to get accounts audited- Audit Report	Penalty equal to lower of : i. 0.5% of turnover/gross receipts or ii. Rs. 1,50,000	Converted to fee under proposed section 428(c) with graded fee of i. ₹75,000 or ii. ₹1,50,000, based on delay period
Section 447 Failure to furnish report under section 172 - TP Report	₹1,00,000 penalty	Converted to fee under section 428(4) with graded fee of ₹50,000 or ₹1,00,000, based on delay period
Section 454(1) Failure to furnish statement of financial transactions / reportable account	₹500 per day for continuing default	Converted into fee under section 427(3)

Assessment Reforms & Penalties

Section	PRE BUDGET	POST BUDGET
Section 454(2) Failure continues after notice under section 508(7)	₹1,000 per day (no upper limit)	Upper cap of ₹1,00,000 proposed

The above amendments will take effect from the 1st day of April, 2026 and shall apply for tax year 2026-27 and subsequent tax years.

6. Enhance Maximum penalty for furnish information u/s 254:

Section 254 of Income-tax Act, 2025:

- Empowers income-tax authorities to collect information from business or professional premises.
- Authorities can direct the proprietor, employee, or any person present to furnish information related to the business/profession.

Penalty for failure to comply with Section 254.

PRE BUDGET	POST BUDGET
Currently, authorities (Joint Commissioner, Deputy Director, Assistant Director, or AO) can impose a maximum penalty of ₹1,000 for non-compliance.	Proposed to emend the maximum penalty to ₹25,000 in order to strengthen deterrence and encourage voluntary compliance.

This amendment will take effect from the 1st day of April, 2026 and shall apply for tax year 2026-27 and subsequent tax years.

Assessment Reforms & Penalties

7. Imposition of penalty for under-reporting or misreporting of income within Assessment Order:

- Section 270A provides for levy of penalty for under reporting of income and misreporting of income if under reporting takes place as a consequence of misreporting.
- Section 274 of the Income-tax Act, 1961 lays down the procedure for imposing penalties, requiring the Assessing Officer to issue a show-cause notice and provide the assessee a reasonable opportunity of being heard. Currently, penalties are imposed through a separate penalty order.
- Section 220 of the 1961 Act deals with payment and recovery of tax demand, requiring any amount specified in a notice under Section 156 to be paid within 30 days of service. Failure to do so results in the assessee being deemed in default, attracting interest under Section 220(2) and recovery proceedings.
- Section 245MA of the 1961 Act, provides for the Dispute Resolution Committee (DRC). It prescribes for the constitution of a DRC to resolve disputes of specified small and medium taxpayers in a cost-effective and expeditious manner.

Proposed Changes

- Penalty for under-reporting and misreporting of income under section 270A to be imposed within the assessment order itself thus enabling a common assessment-cum-penalty order.
- Section 220 proposed to be amended to charge interest under section 220(2) only after the order of CIT(A) or ITAT (in cases of appeal against DRP orders). Consequential amendments proposed in section 245MA.
- Sections 274, 220, 245MA will be amended to align with the new procedure.

It is further proposed that these proposed amendments shall come into force in the Income-tax Act, 1961 from the 1st day of March, 2026 and shall be effective from 1st day of April, 2027, where any draft of the proposed order of assessment under section 144C is made or assessment under section 143 or reassessment under section 147 is made on or after 1st of April, 2027.

Assessment Reforms & Penalties

8. Rationalisation of tax rate - unexplained credits:

Sections 102 to 106 of the Income-tax Act, 2025 cover income arising from unexplained credits, investments, assets, expenditure, and amounts borrowed or repaid through negotiable instruments or hundi.

PRE BUDGET	POST BUDGET
<p>Under the current provisions, Section 195(1) further provides that where total income of an assessee includes any income referred to in section 102 to 106, the income-tax calculated on such income will be charged at the rate of 60%. Further, Section 443 provides for a penalty of 10% of tax where income required to be included under sections 102 to 106 is determined by the Assessing Officer</p>	<p>It is proposed to amend section 195 to reduce the tax rate from 60% to 30% in order to rationalise the same. In addition, the penalty under Section 443 will be omitted, and any penalty for such income will now be subsumed under Section 439(11), bringing it in line with the regular penalty framework for misreporting or under-reporting of income.</p>

This amendment will take effect from the 1st day of April, 2026 and shall apply for tax year 2026-27 and subsequent tax years.

Assessment Reforms & Penalties

9. Expanding the scope of immunity from penalty or prosecution under section 440 of the Act

Currently, Section 440 allows the Assessing Officer to grant immunity from penalty under section 439 and prosecution under sections 478/479 if

- the tax and interest are paid and
- no appeal is filed,

but this applies only to under-reporting of income and not cases arising from misreporting.

The proposed amendment extends the scope of immunity to cases of under-reporting of income due to misreporting, provided the taxpayer pays additional income-tax:

- 100% of tax payable for misreporting cases
- 120% of tax payable for income referred to in sections 102–106 (unexplained credits, investment, assets, etc.)

This allows taxpayers to settle disputes early, reduce litigation, and limits compliance burden.

This amendment will take effect from the 1st day of April, 2026 and shall apply for tax year 2026–27 and subsequent tax years.

Assessment Reforms & Penalties

10. Clarifications on jurisdiction for issuance of reassessment notices and time lines for completion of assessments:

PRE BUDGET	POST BUDGET
<p>The Act did not clearly specify whether NaFAC/assessment units could issue notices under sections 148 and 148A, leading to conflicting High Court rulings and litigation.</p>	<p>It is clarified that only the jurisdictional Assessing Officer (other than NaFAC or its units) can issue notices under sections 148 and 148A. Faceless assessment by NaFAC will apply only after issuance of notice under Section 148.</p>

The clarification applies retrospectively from 1 April 2021, with corresponding changes in the Income-tax Act, 2025 effective from 1 April 2026.

11. Validity of Assessments vis-à-vis Computer-Generated DIN

PRE BUDGET	POST BUDGET
<p>Section 292B provides that assessments should not be invalidated for minor mistakes or omissions, several High Court rulings held assessments to be invalid due to technical issues relating to DIN, such as non-quoting of DIN on every page or in the body of the order, even where DIN was otherwise generated and communicated.</p> <p>This led to annulment of valid assessments and increased litigation</p>	<p>It is proposed to clarify Section 292B to provide that no assessment shall be invalid merely due to any mistake, defect, or omission relating to quoting of computer-generated DIN, so long as the assessment order is referenced by such DIN in any manner.</p> <p>The clarification overrides judicial rulings, treats minor DIN-related lapses as curable, and ensures consistency under both the Income-tax Act, 1961 and the Income-tax Act, 2025, thereby reducing litigation and providing certainty.</p>

Assessment Reforms & Penalties

12. Clarifying time-limit for completion of assessment under section 144C.

Provision	BEFORE BUDGET	AFTER BUDGET
Time limits for assessments involving draft orders under Section 144C vis-à-vis Sections 153 and 153B	Judicial interpretations differed on whether the overall time limits under Sections 153 or 153B applied to the entire Section 144C process, despite specific timelines prescribed under Sections 144C (4) and 144C (13), resulting in ambiguity and litigation.	It is clarified that the time limits under Sections 153 and 153B govern only up to the draft order stage, while the timelines under Section 144C apply for finalisation of assessments, notwithstanding Sections 153 and 153B, thereby removing ambiguity.
Effective date of clarification	No express statutory override of judicial interpretations existed.	Clarification applies retrospectively from 1 April 2009 for Section 153 and from 1 October 2009 for Section 153B; corresponding amendments under the Income-tax Act, 2025 apply from 1 April 2026.

Assessment Reforms & Penalties

13. Clarifications on validity and computation periods related to transfer pricing orders.

Provision	PRE BUDGET	POST BUDGET
Computation of 60-day period for passing order by the Transfer Pricing Officer under Section 92CA(3A)	Ambiguity existed on whether the date of limitation under Sections 153 or 153B was to be included in computing the 60-day period, leading to conflicting judicial interpretations and annulment of assessments.	It is clarified that the date of limitation is to be included in computing the 60-day period for passing the TPO order, notwithstanding judicial rulings, thereby aligning with legislative intent and reducing litigation.
Alignment between Income-tax Act, 1961 and Income-tax Act, 2025	No explicit clarification existed, resulting in interpretational inconsistency between the two Acts.	Corresponding amendments are introduced in the Income-tax Act, 1961 and mirrored in the Income-tax Act, 2025 to ensure uniform interpretation and certainty.
Effective date of clarification	No statutory clarification with retrospective effect.	Clarification applies retrospectively from 1 June 2007 under the Income-tax Act, 1961, and prospectively from 1 April 2026 under the Income-tax Act, 2025.



International Taxation Reforms

International Taxation Reforms

Amendments Affecting Advance Pricing Agreements

What is Advance Pricing Agreement (APA)?

An APA is an agreement between the taxpayer and the tax authority on the pricing of future intercompany transactions in case of a roll-back, it would also include past years. The taxpayer and tax authority mutually agree on the transfer pricing methodology (TPM) to be applied and its application for a certain period of time for covered transactions (subject to fulfilment of critical assumptions).

Currently, Clause 169(1) of IT Act, 2025 requires a taxpayer who has already filed a return for a tax year covered by an APA to file a modified return within three months from the end of the month in which the APA is entered, limited only those aspects of the return that are impacted by the APA are to be modified.

PRE BUDGET	POST BUDGET
<ul style="list-style-type: none">• Currently, under Section 169(1), only the person who enters into an Advance Pricing Agreement (APA) with the tax authorities can file a modified return of income.• However, there is no provision for the associated enterprise whose income and tax liability is correspondingly modified under the APA to file a return or claim a refund of additional taxes paid or withheld.	<ul style="list-style-type: none">• It is proposed that where income is modified under an APA, the person entering into the APA or any associated enterprise may file a return or modified return, limited to the terms of the APA.

These amendments will apply to APAs entered on or after 1 April 2026 and will be effective for the tax year 2026-27 and subsequent years, enabling associated enterprises to claim refunds or adjust tax liabilities in accordance with the APA.

International Taxation Reforms

1. Expansion of exempt income provisions for non-residents and international units- Section 11 read with Schedule IV

- Exemption to a foreign company on any income arising in India by way of procuring data centre services from a specified data centre.
- To promote investment in data centres and support the artificial intelligence data centre framework in India, it is proposed to amend Schedule IV to provide tax exemption to a foreign company on income accruing or arising in India from procuring services from a specified Indian data centre, valid up to the tax year ending 31 March 2047.
- A key condition for the exemption is that services provided to Indian users by the foreign company must be routed through an Indian reseller entity.
- It is proposed to expand the list of minerals in Schedule XII, making expenditure on these critical minerals eligible for deduction under Section 51.

These amendments will take effect from the 1st day of April, 2026

2. Exemption for foreign companies providing capital equipment etc. to an electronic goods manufacturer in custom bonded area till 2031

- The amendment provides tax exemption to foreign companies on income arising from supplying such goods to a resident contract manufacturer located in a customs bonded area, producing electronic goods on behalf of the foreign company, for a period up to the tax year 2030–31.
- These amendments will take effect from the 1st day of April, 2026

3. Exemption to non-residents for rendering services under a notified Scheme in India.

- The amendment provides exemption from Indian tax on income accruing outside India (and not deemed to accrue in India) for a period of five consecutive tax years starting from the first year of visit, provided the individual renders services under the notified scheme and meets other prescribed conditions.

International Taxation Reforms

Extension of period of deduction for units in IFSC and rationalization of tax rate

Section 147 currently provides a 100% deduction of specified income to units located in an International Financial Services Centre (IFSC) and to Offshore Banking Units (OBUs).

PRE BUDGET

- At present, this deduction is available for 10 consecutive years—out of 15 years for IFSC units and 10 years for OBUs.

POST BUDGET

- It is proposed to extend the deduction period to 20 consecutive years—out of 25 years for IFSC units and 20 years for OBUs.
- Further, after the expiry of the deduction period, the business income of such IFSC units and OBUs will be taxed at a concessional rate of 15%, instead of the normal applicable rates.



Indirect Tax Updates – Customs & Excise

Indirect Tax Updates – Customs

1. AMENDMENT TO THE CUSTOMS ACT, 1962

Provision (Income-tax Act, 2025)	Amendment / Explanation	Clause of Finance Bill, 2026
Section 1(2)	Jurisdiction extended beyond territorial waters of India for fishing and related activities	129
Section 2	New clause inserted to define “Indian-flagged fishing vessel”	130
Section 28(6)	Penalty under section 28(5), determined under 28(6), deemed as charge for non-payment of duty	131
Section 28J(2)	Advance ruling valid for 5 years or until law/facts change. Existing rulings can be extended for 5 years on request	132
New Section 56A	Special provisions for fishing by Indian-flagged vessels beyond territorial waters. Fish imported into India duty-free; fish landed abroad treated as export. Regulations for entries, declaration, custody, examination, duty assessment, clearance, transit, or transshipment	133
Section 67	Allows removal of warehoused goods from one customs warehouse to another without prior permission of proper officer	134
Section 84(b)	Words “the examination” replaced with “the custody, examination” to enable Board to make rules for custody of imported/exported goods	135

Indirect Tax Updates – Customs

A. Tariff Rate Modifications (from 02.02.2026 for MSME sector)

- **Umbrellas:** BCD is Rs. 60 per piece or 20%, whichever is higher.
- **Parts/trimmings for umbrellas:** Rs. 25 per kg or 10%, whichever is higher.

B. Tariff Rate Decrease (from 01.04.2026)

- **All dutiable goods for personal use:** BCD reduced from 20% to 10%.

C. Tariff rate changes (without any change in effective rate of duty) [to be effective from 01.05.2026]

S. No	Item Description	PRE BUDGET	POST BUDGET
1	Parts,trimmings and accessories of certain article	10%	10% or Rs. 25 per kg (whichever is higher)
2	All dutiable goods imported for personal use	20%	10%
3	Meat and edible offal of turkeys, frozen	30%	5%

Indirect Tax Updates – Customs

Items With Tariff Rate Changes

S. No	Item Description	PRE BUDGET	POST BUDGET
4	Almonds, in shell	Rs. 42 per kg	Rs. 35 per kg
5	Almonds, shelled	Rs. 120 per kg	Rs. 100 per kg
6	Walnuts, in shell	120%	100%
7	Seeds and fruits used for sowing (excluding certain subgroups)	30%	15%
8	Wool grease and fatty substances derived therefrom	30%	15%
9	Makhana, other roasted nuts and seeds	150%	30%
10	Other nuts, otherwise prepared or preserved	150%	30%

Indirect Tax Updates – Customs

S. No	Item Description	PRE BUDGET	POST BUDGET
11	Prawn and shrimps feed	15%	5%
12	Natural graphite	5%	2.5%
13	Quartz and quartzite	5%	2.5%
14	Coal, briquettes, lignite and peat	5%	2.5%
15	Petroleum crude	5%	Re 1 per tonne
16	Phosphoric Acid	7.5%	5%

Indirect Tax Updates – Customs

S. No	Item Description	PRE BUDGET	POST BUDGET
17	Silicon dioxide	7.5%	2.5%
18	Methyloxirane (propylene oxide)	5%	2.5%
19	Ammonium nitrate	10%	5%
20	Artificial, colloidal graphite and related preparations	7.5%	2.5%
21	Gibberellic acid	10%	5%
22	Polymers of vinyl chloride or other halogenated olefins	10%	7.5%
23	Reactors, columns, towers or chemical storage tanks	10%	7.5%

Indirect Tax Updates – Customs

Items with Tariff Reduced From a Rate to Nil

S. NO	Item Description	PRE BUDGET	POST BUDGET
1	Artemia	5%	Nil
2	Artemia cysts	5%	Nil
3	Natural sands excluding metal bearing sands	5%	Nil
4	Strontium sulphate (natural ore)	5%	Nil
5	Tellurium	5%	Nil
6	Silicon, containing \geq 99.99% silicon	5%	Nil

Indirect Tax Updates – Customs

S. No	Item Description	PRE BUDGET	POST BUDGET
7	Silicon, other	5%	Nil
8	Selenium	5%	Nil
9	Rare-earth metals, scandium, and yttrium	5%	Nil
10	Oxides, hydroxides, and peroxides of strontium or barium	7.5%	Nil
11	Cobalt oxides	7.5%	Nil
12	Cobalt hydroxides	7.5%	Nil

Indirect Tax Updates – Customs

S. No	Item Description	PRE BUDGET	POST BUDGET
13	Commercial cobalt oxides	7.5%	Nil
14	Lithium oxide and hydroxide	7.5%	Nil
15	Vanadium oxides and hydroxides	7.5%	Nil
16	Germanium oxides	7.5%	Nil
17	Molybdenum oxides and hydroxides	7.5%	Nil
18	Antimony oxides	7.5%	Nil

Indirect Tax Updates – Customs

S. No	Item Description	PRE BUDGET	POST BUDGET
19	Cadmium oxide	7.5%	Nil
20	Chlorides of Nickel	7.5%	Nil
21	Strontium chloride	7.5%	Nil
22	Sulphates of Nickel	7.5%	Nil
23	Nitrates of potassium	7.5%	Nil
24	Lithium carbonates	7.5%	Nil

Indirect Tax Updates – Customs

S. No	Item Description	PRE BUDGET	POST BUDGET
25	Strontium carbonate	7.5%	Nil
26	Bismuth citrate	7.5%	Nil
27	Plans and drawings for architectural, engineering, industrial, commercial, topographical or similar purposes	10%	Nil
28	Other cotton of staple length exceeding 32.0 mm	5%	Nil
29	Ferro-nickel	2.5%	Nil
30	Blister copper	5%	Nil
31	Lead waste and scrap	5%	Nil
32	Zinc waste and scrap	5%	Nil
33	Cobalt powders	5%	Nil

Indirect Tax Updates – Customs

Items With Tariff Rate Changes

S.No	Item Description	New Tariff Rate
1	Krill, frozen	15%
2	Pecan Nuts	30%
3	Cranberries, fresh	10%
4	Blueberries, fresh	10%
5	Cranberries, frozen	10%
6	Blueberries, frozen	10%
7	Cranberries, dried	10%
8	Blueberries, dried	10%
9	Shea Nuts	15%
10	Cranberries, otherwise prepared or preserved (not elsewhere specified)	5%
11	Blueberries, otherwise prepared or preserved (not elsewhere specified)	10%
12	Alcoholic preparations (other than specified) having alcoholic strength > 0.5% vol	50%

Indirect Tax Updates – Customs

Items With Tariff Rate Changes

S.No	Item Description	New Tariff Rate
13	Cranberry products	10%
14	Acid grade fluorspar (>97% calcium fluoride)	2.5%
15	Ammonium metavanadate	2.5%
16	Gibberellic acid	5%
17	Triethyl orthoformate	5%
18	Diethyl malonate	5%
19	DL-2 Aminobutanol	5%
20	Aceto butyrolactone	5%
21	Artemisinin	5%
22	Thymidine	5%

Indirect Tax Updates – Customs

Items With Tariff Rate Changes

S.No	Item Description	New Tariff Rate
23	Mixtures of odoriferous substances used in food/drink industries (except specified alcoholic preparations)	10%
24	Rayon grade wood pulp	2.5%
25	All goods other than kites (kites under different tariff)	10%
26	Tungsten (wolfram) bars and rods (other than those obtained simply by sintering, profiles, plates, sheets etc.)	5%
27	All goods other than indoor/outdoor units of split-system air conditioner	10%
28	All goods other than Reverse Osmosis (RO) membrane element for household type filters	7.5%
29	Battery separators	5%
30	Parts suitable for use with apparatus of headings 8525, 8526 or 8527	10%
31	Refrigerated containers	5%

Indirect Tax Updates – Excise

Tobacco Products (NCCD Rates)

PROVISION	PRE BUDGET	POST BUDGET
National Calamity Contingent Duty (NCCD) on chewing tobacco, Jarda scented tobacco, and other tobacco products (including gutkha)	The tariff rate of NCCD was 25%, and the effective duty rate was also 25%.	The tariff rate of NCCD has been revised to 60%, while the effective duty rate continues at 25%, ensuring revenue neutrality and rationalisation of the duty structure.

Blended CNG (Biogas/CBG Relief)

PROVISION	PRE BUDGET	POST BUDGET
Exclusion of biogas / CBG value from excise valuation of blended CNG	Excise duty was levied on the full value of blended CNG, including the biogas/CBG component.	The biogas/CBG component is excluded from excise valuation of blended CNG, reducing duty and supporting clean energy fuels.



Relief Measures for Small Taxpayers & Cooperative Societies

Relief Measures for Small Taxpayers & Cooperative Societies

Exemption of Interest on Motor Accident Compensation

Interest on compensation under the Motor Vehicles Act, 1988 refers to the interest awarded by the Motor Accident Claims Tribunal (MACT) to an accident victim or their legal heirs for the delay in receiving the compensation amount.

PRE BUDGET	POST BUDGET
<p>Earlier, such interest was treated as taxable income under the head Income from Other Sources, and TDS was required to be deducted if the interest exceeded ₹50,000 in a financial year.</p>	<p>The Union Budget 2026 provides a full exemption of this interest from income tax and removes the requirement of TDS, irrespective of the amount, with effect from 1 April 2026.</p>

The amendment allows victims and their families to receive the entire interest amount without deductions, easing financial stress, reducing compliance, and ensuring more effective compensation.

Relief Measures for Small Taxpayers & Cooperative Societies

Removal of TDS on Interest Awarded under Motor Vehicles Act

TDS on interest on motor accident compensation refers to tax being deducted on the interest portion awarded by the MACT for delay in payment of compensation to accident victims or their legal heirs.

PRE BUDGET	POST BUDGET
Such interest was treated as taxable income under "Income from other sources" and TDS @10% was deducted under section 194A if the interest exceeded ₹50,000 in a year.	The Budget has fully exempted this interest from tax and removed TDS, regardless of the amount, with effect from the notified date and the amendment takes effect from 1 April 2026.

Victims and families now receive the entire interest amount without deduction, improving cash flow, reducing compliance burden, and avoiding refund claims.

Relief Measures for Small Taxpayers & Cooperative Societies

Clarification of Tax Exemption on Compensation for Compulsory Acquisition of Land

Compensation on compulsory acquisition of land under the RFCTLARR Act refers to the payment made by the government to a landowner when their land is taken for public purposes like infrastructure, with statutory rights to fair compensation.

PRE BUDGET	POST BUDGET
Although Section 96 of the RFCTLARR Act already provided that such compensation is not subject to income tax, the Income-tax Act did not explicitly list this exemption, leading to ambiguity and reliance on CBDT circulars and judicial interpretations.	The Budget 2026 explicitly amends the Income-tax Act to exempt any income (including compensation) arising from compulsory acquisition of land under the RFCTLARR Act (other than certain Section 46 cases), effective from 1 April 2026.

This gives clear statutory tax exemption to landowners, removing uncertainty, reducing disputes, and ensuring they receive compensation without income-tax liability

Relief Measures for Small Taxpayers & Cooperative Societies

Statutory Exemption for Disability Pension of Armed Forces and Paramilitary Personnel

Disability pension is the pension paid to Armed Forces and paramilitary personnel who are invalidated out of service on account of a bodily disability attributable to, or aggravated by, their service.

PRE BUDGET	POST BUDGET
<p>While this pension historically enjoyed income-tax exemption under legacy laws and administrative notices, the provisions were not explicitly in the Income-tax Act, and application often depended on interpretation and circulars.</p>	<p>The Union Budget 2026 expressly inserts a statutory exemption in the Income-tax Act for disability pension (both service and disability elements) only if the individual was invalidated out due to service-related disability, and extends this to paramilitary personnel, effective 1 April 2026.</p>

This brings clarity and certainty, ensuring targeted tax relief for service-related disability pensions, but excludes cases where personnel retire on superannuation or otherwise, which may reduce exemption for some veterans.

Relief Measures for Small Taxpayers & Cooperative Societies

The Black Money Act, 2015 was enacted to tackle undisclosed foreign income and assets held by resident taxpayers and to impose stringent tax, penalty, and prosecution measures. A one-time compliance window was provided in 2015 to encourage voluntary disclosure of undisclosed foreign assets

PRE BUDGET	POST BUDGET
<p>After the closure of the 2015 compliance window, there was no mechanism for taxpayers to regularise undisclosed foreign income or assets without facing severe penalties and prosecution.</p> <p>Even small or inadvertent non-disclosures were subject to strict consequences under the Act</p>	<p>The Budget introduces a time-limited scheme that allows taxpayers to voluntarily disclose undisclosed foreign assets or foreign income by paying the required tax or fee.</p> <p>In return, they will be protected from harsh penalties and criminal action under the Black Money Act, 2015, including the penalty of three times the tax and jail term of three to ten years, except in cases where prosecution has already started or the assets involve proceeds of crime.</p>

The measure enables small taxpayers to resolve legacy and inadvertent non-disclosures with reduced compliance risk. It is expected to improve voluntary compliance and reduce litigation under the Black Money Act.

Relief Measures for Small Taxpayers & Cooperative Societies

EXEMPTION FOR SOVEREIGN GOLD BOND

SECTION	PRE BUDGET	POST BUDGET
Section 70(1)(x)	<p>Exemption from capital gains tax is available on income arising from redemption of Sovereign Gold Bonds issued under the Sovereign Gold Bond Scheme, 2015.</p> <p>The provision did not specify conditions for continuous holding or applicability across multiple series of bonds issued over time.</p>	<p>Amended to clarify that the exemption is available only if the bond is subscribed at the time of the original issue and held continuously until redemption at maturity.</p> <p>This ensures uniform application of the exemption across all series of Sovereign Gold Bonds issued by the Reserve Bank of India.</p>

Withdrawal of Interest Deduction on Dividend and Mutual Fund Income

SECTION	PRE BUDGET	POST BUDGET
Section 93 (Deductions from income from other sources)	<p>Interest expenditure incurred for earning dividend income or income from units of mutual funds is allowed as a deduction, subject to a ceiling of 20% of the gross dividend or mutual fund income.</p>	<p>No deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds.</p>

Relief Measures for Small Taxpayers & Cooperative Societies

Cooperatives

Cooperative societies operate for the benefit of their members by pooling resources and distributing income such as interest and dividends.

PRE BUDGET

Earlier, deductions on interest or dividends from other cooperatives were available only under the old tax regime, while dividends from companies were fully taxable.

In addition, deductions for primary cooperatives were limited to profits from core agricultural supplies, excluding allied activities such as cattle feed and cotton seeds.

POST BUDGET

The Budget allows cooperative societies to claim dividend deductions under the new tax regime when distributed to members, grants time-bound relief to notified federal cooperatives on company dividends till tax year 2028-29, and expands eligible activities to include cattle feed and cotton seeds.

These changes apply from 1 April 2026 (tax year 2026-27 onwards)

The amendments improve tax parity between regimes, enhance income available for distribution to members, and strengthen cooperative societies by supporting allied agricultural activities.



Other Regulatory Changes

Other Regulatory Changes

SECTION	PRE BUDGET	POST BUDGET
66(33)	Definition of "specified derivative transaction" uses the term "commodity derivative", but the term is not defined in the 2025 Act.	"Commodity derivative" defined as in Income-tax Act, 1961 to align the terminology and provide clarity for derivative transactions.
402(27)	"Person responsible for paying" is defined, but "authorised person" is not defined for payments to non-residents involving foreign exchange assets.	In case of payment to non-resident, for transfer of foreign exchange asset, "authorised person" is the person responsible for paying.
21(5)	Annual value of property held as stock-in-trade not explicitly specified.	Annual value of stock-in-trade property taken as nil for up to two years from the end of the financial year in which a completion certificate is obtained from competent authority, aligning with Income-tax Act, 1961.
22(2)	Aggregate deduction for interest on self-occupied property is capped at ₹2 lakh, excluding prior-period interest on borrowed capital.	Aggregate deduction for interest on borrowed capital now includes prior-period interest payable, consistent with section 24 of Income-tax Act, 1961.
Schedule VI, Note 1(g)	Definition of "specified fund" unclear; references do not fully align with 1961 Act.	Definition of "specified fund" amended to align with section 10(4D) of Income-tax Act, 1961, providing clarity on applicable funds.

Other Regulatory Changes

Corrections of Referencing Errors in Provisions of Act

SECTION	PRE BUDGET	POST BUDGET
Section 99(2)-Determines proportion of income to be included in the hands of an individual where an asset is transferred	Wrongly references Section 99(1)(a)(i) (income of spouse from a concern in which individual has substantial interest).	Reference corrected to Section 99(1)(a)(ii), which deals with income arising to spouse from assets transferred, ensuring correct computation of income from transferred assets.
Section 393(1) – Note 3- TDS on sale of immovable property	Note 3 refers incorrectly to Table Sr. No. 3(iii) (compulsory acquisition) instead of the relevant provision.	Corrected to Table Sr. No. 3(i) for TDS applicability on sale of immovable property where consideration or stamp duty value is ₹50 lakh or more.

Eliminates technical and drafting errors that may otherwise result in incorrect application of tax provisions. Enhances accuracy in tax computation and consistency in implementation.

Other Regulatory Changes

CHANGES IN PROVISIONS APPLICABLE TO NON-PROFIT ORGANISATION

The Budget proposes various amendments to the provisions applicable to Non-Profit Organisations (NPOs) with a view to rationalising the tax framework, addressing practical issues, and aligning the NPO regime with the Income-tax Act, 1961. The key changes are summarised below.

SECTION	PRE BUDGET	POST BUDGET
352(4), Table SI. No. 8.B / New Section 354A	Tax on accrued income is payable where a registered NPO merges with any entity other than a registered NPO having the same or similar objects. The provision does not specifically cover mergers between two registered NPOs having the same or similar objects.	A new section 354A is inserted to provide that where a registered NPO merges with another registered NPO having the same or similar objects, tax on accrued income shall not apply, subject to fulfilment of prescribed conditions. Further, section 352(4) is amended to clarify that tax on accrued income shall be payable where the merger is with (i) a non-NPO entity, (ii) (ii) a registered NPO with same/similar objects but not meeting prescribed conditions, or (iii) a registered NPO with dissimilar objects.
351	Commercial activities carried out by a registered NPO engaged in advancement of objects of general public utility are treated as a specified violation, and also covered as an other violation, which may lead to cancellation of registration.	The reference to such commercial activity is removed from section 351 so that it is no longer treated as a specified violation, thereby preventing unintended cancellation of registration and aligning the provision with the Income-tax Act, 1961.

Other Regulatory Changes

SECTION	PRE BUDGET	POST BUDGET
332(1)(f)	Persons under Schedule VII (Sl. No. 10–16) required to register as NPOs under section 332 .	Reference removed; such persons not required to register, aligning with Income-tax Act, 1961, and clarifying eligibility for exemption under section 10 .
349	Persons under Schedule VII (Sl. No. 10–16) required to register as NPOs under section 332 .	NPOs are permitted to file a belated return under section 263(4) . Any person who has not furnished the return within the standard time limit may file the return within nine months from the end of the relevant assessment year, thereby restoring the position as applicable under the Income-tax Act, 1961.

Other Regulatory Changes

CBDT- RELATED AMENDMENTS

SECTION	PRE BUDGET	POST BUDGET
262(10)(c)	CBDT can make rules for PAN only in documents related to business or profession.	CBDT empowered to make rules for quoting PAN in all documents related to transactions, including those not related to business or profession, aligning with Income-tax Act, 1961.
400(2)	CBDT, with prior approval of the Central Government, may issue guidelines to remove difficulties in implementing TDS and TCS provisions, and such guidelines are to be laid before Parliament. The Act, however, does not specify that these guidelines are binding.	Guidelines issued to remove difficulties in implementing TDS and TCS provisions shall be binding on income-tax authorities and on persons liable to deduct or collect tax.

The amendments expand and clarify the rule-making and interpretative powers of the CBDT and enhance reporting and compliance oversight across financial transactions.

Other Regulatory Changes

AMENDMENTS RELATING TO DEDUCTIONS

SECTION	PRE BUDGET	POST BUDGET
Section 536(2)(h)	Where any deduction was allowed or any amount was not included in total income under the repealed Income-tax Act, 1961, such amount is deemed to be income only if there is a violation of the specified conditions, in the year in which such violation occurs. The provision does not cover cases where inclusion is required without any violation.	The provision is amended to provide that any deduction allowed or income not included under the repealed Income-tax Act, 1961 shall be deemed to be income under the Income-tax Act, 2025, even without violation of any conditions, if such amount would have been taxable under the Income-tax Act, 1961 had it not been repealed.

Other Regulatory Changes

RATIONALISATION OF PROVIDENT FUND PROVISIONS TO ALIGN WITH EPF PROVISIONS

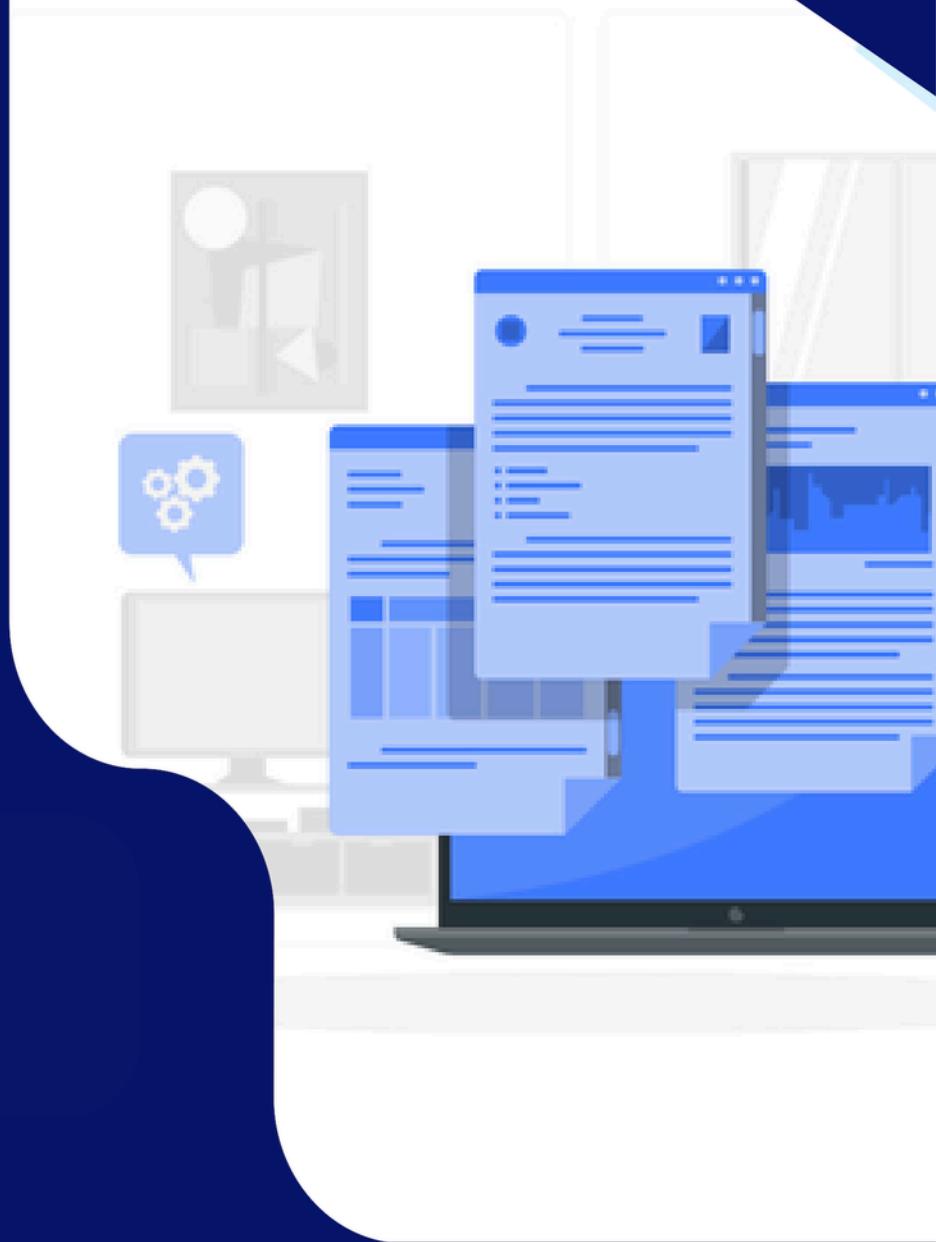
The amendments align the taxation of provident funds with the EPF framework by replacing multiple percentage-based and parity conditions with a single monetary ceiling on employer contributions. They simplify compliance by removing redundant and category-specific provisions, limit tax recognition to EPF-exempt provident funds, and provide greater operational and investment flexibility while retaining statutory oversight.

SCHEDULE	PRE BUDGET	POST BUDGET
Schedule XI, Part A – Paragraph 4(c)	Employer contributions to recognised provident funds were required to be equal to employee contributions and credited to the fund annually	Removed this rule because now there's a fixed maximum limit of ₹7.5 lakh for employer contributions under section 17(1)(h) .
Schedule XI, Part A – Paragraph 4(f)	Funds eligible for recognition were mentioned without a clear link to exemption under the EPF Act .	Clarified that only provident funds that have received exemption under section 17 of the EPF Act can apply for recognition under the Income-tax Act. This ensures only compliant funds are recognised.
Schedule XI, Part A – Paragraph 5(4)	Allows flexibility in employer-employee contribution parity based on salary threshold or contingent bonus structures.	Removed, as the unified ceiling of ₹7.5 lakh replaces the need for such discretionary adjustments.

Other Regulatory Changes

SCHEDULE	PRE BUDGET	POST BUDGET
Schedule XI, Part A – Paragraph 6(a)	Employer contributions exceeding 12% of salary were treated as taxable income in the hands of the employee	Omitted, since the absolute monetary ceiling already limits contributions, making the 12% rule redundant.
Schedule XI, Part C – Paragraph 1(d)	Employees who are also shareholders of the employer company had different contribution limits.	Omitted, as such distinction is not recognised under the EPF framework and overlaps with the unified monetary ceiling.
Schedule XI, Part C – Paragraph 1(e)	Investments of provident fund monies in government securities were capped at 50%	Amended to remove the 50% cap . Funds can now invest more freely according to EPF rules, while regulatory oversight is maintained, allowing better fund management without rigid statutory limits.

These amendments shall take effect from the 1st day of April, 2026, and shall apply in relation to the tax year 2026-27 and subsequent tax years.



THANK YOU

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