

# Union BUDGET 2026-27

## Macro fiscal developments

### Paving the way for India to become globally competitive

#### Key tax takeaways

Despite global uncertainty, India remains the fastest growing major economy.

- As per the NSO's First Advanced Estimates, India's real GDP growth is estimated at 7.4% in FY26.
- For FY27, the Economic Survey projected India's real GDP growth in the range of 6.8% to 7.2%.
- Nominal GDP growth in FY27 is budgeted at 10%.

#### Tax revenue performance: FY27(BE) over FY26(RE)

- Gross Tax Revenue (GTR) growth in FY27 (BE) is budgeted at 8% over FY26 (RE), indicating a fall in buoyancy from 0.9 to 0.8 over the corresponding period.
- Direct tax growth is budgeted at 11.4% in FY27 (BE) over FY26 (RE).
- Indirect tax growth is budgeted at only 3% in FY27 (BE) over FY26 (RE), mainly attributable to a discontinuation of GST compensation cess.

#### Priority of government expenditure

- Infrastructure investment: GoI's capital expenditure has been kept at INR12.2 lakh crore for FY27 (BE), amounting to 3.1% of GDP.
- Revenue expenditure growth is budgeted at 6.6% in FY27 (BE) over FY26 (RE).

The Budget attempts to balance the objectives of fiscal consolidation and sustaining growth amid revenue constraints.

- The fiscal deficit to GDP ratio is budgeted to fall to 4.3% of GDP in FY27 (BE) from 4.4% in FY26 (RE).
- The stated target is to reduce the debt-GDP ratio from the estimated level of 56.1% in FY26 (RE) to 55.6% in FY27 and further to 50% ± 1% by FY31.

#### Highlights



**INR12.2 lakh crore  
(3.1% of GDP)**

Capital expenditure  
(FY27 (BE))



**4.3%**

Fiscal deficit-to-GDP  
ratio for FY27 (BE)



**50% ± 1%**

Targeted debt-to GDP  
ratio by 2030-31

## Recommendations of the 16th Finance Commission (accepted by GoI):

- Retain the vertical share of devolution at 41%.
- Provide INR1.4 lakh crore to the states for FY27 as Finance Commission Grants. These include Rural and Urban Local Body and Disaster Management Grants.

## Focus on scaling up manufacturing in seven strategic and frontier sectors:

- Biopharma: Biopharma SHAKTI scheme with an outlay of INR10,000 crore over the next five years will be set up to develop India as a global Biopharma manufacturing hub.
- Semiconductors: Semiconductor Mission 2.0 to be launched to produce equipment and materials, design full-stack Indian IP and fortify supply chains.
- Electronics Components: The outlay for Electronics Components Manufacturing Scheme will be increased to INR40,000 crore.
- Rare earth magnets: Dedicated Rare Earth Corridors to be established, to support the mineral-rich states of Odisha, Kerala, Andhra Pradesh and Tamil Nadu to promote mining, processing, research and manufacturing.
- Chemicals: Three dedicated Chemical Parks, through challenge route, on a cluster-based plug-and-play model.
- Capital goods: Schemes for construction equipment and containers manufacturing will be introduced to strengthen domestic manufacturing of high-value and technologically-advanced equipment.
- Textile: A National Fibre Scheme, Textile Expansion and Employment Scheme and a National Handloom and Handicraft Programme will be set up.

## Support for MSMEs:

- INR10,000 crore SME Growth Fund will be set up to create future Champions, incentivizing enterprises based on select criteria.
- Professional institutions such as ICAI, ICSI and ICMAI will design short-term, modular courses and practical tools to help MSMEs meet compliance requirements at affordable costs.

## Continued infrastructure push:

- An Infrastructure Risk Guarantee Fund will be set up to strengthen the confidence of private developers regarding risks during infrastructure development and construction phase.
- Dedicated freight corridors and 20 new waterways will be operationalized.
- Seven high-speed rail corridors between cities as 'growth connectors' will be developed.

## Financial sector reforms:

- A High Level Committee on Banking for Viksit Bharat to be set up to comprehensively review the sector and align it with India's next phase of growth.
- Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) will be restructured.
- A Review of the Foreign Exchange Management (Non-debt Instruments) Rules will be undertaken to create a contemporary framework for foreign investments.

## Sustained energy transition efforts:

- An outlay of INR20,000 crore over the next five years announced for Carbon Capture Utilization and Storage (CCUS) technologies.

## Highlights

41% tax devolution share for states retained

16<sup>th</sup> Finance Commission recommendation



INR40,000 crore

Electronics Components Manufacturing Scheme



INR20,000 crore

Carbon Capture Utilization and Storage (CCUS) over five years



INR10,000 crore

Biopharma SHAKTI Scheme over five years

INR5,000 crore

Per City Economic Region over five years

## Impact analysis

The Union Budget FY27 seeks to accelerate and sustain economic growth, by enhancing competitiveness and building resilience to the global uncertainty.

A focused push to scale up manufacturing in key sectors can strengthen India's domestic supply chains and deepen its integration with global value chains. This approach aligns with the Economic Survey's view that, in a changed global economy, Swadeshi has become an important policy instrument for India. Additionally, measures like an SME fund and expanded credit guarantees can strengthen capital support for MSMEs, which contribute nearly 30% to India's GDP, while a comprehensive review of the financial sector can help chart the next phase of reform-led growth.

Overall, the Budget paves the way for India to remain deeply integrated with global markets, become competitive and attract stable long-term investment.



# Union **BUDGET** 2026-27

## Corporate tax amendments

### Key tax takeaways

- With the Income Tax Act, 2025 (ITA 2025) coming into effect from 1 April 2026, Finance Bill, 2026 (FB 2026) has amended provisions of both ITA 2025, and the Income-tax Act, 1961 (ITA 2026).
- Some of the key corporate tax proposals announced in FB 2026 are as below:
  - No changes made to the corporate tax rates except MAT rates reduced from 15% to 14%.
  - MAT rate will be final rate for domestic companies not opting for concessional tax regime; no MAT credit allowed.
  - MAT credit to the extent of 25% available to domestic companies availing concessional tax regime from tax year 2026-27 and onwards.
  - Foreign companies opting for presumptive tax regime uniformly exempted from MAT.
  - Denial of entire interest expense as deduction against dividend income and income from units of mutual funds.
  - Due date for deposit of employee's contribution to specified welfare funds aligned with due date of filing return of income of employer.
- Gains arising from buy-back to be treated as capital gains in hands of shareholder instead of dividend income; additional tax applicable to promoters participating in buy-back of shares of companies.
- Rationalizing rates of tax collected at source at uniform rate of 2%.
- Enabling electronic application and issuance of lower/ Nil withholding certificate for deduction of income-tax.
- Due date for filing return of income for cases involving business income and trust not subject to statutory/tax audit to be 31 August of subsequent tax year.
- Due date for revising return of income extended from nine months to 12 months from end of relevant tax year subject to payment of fee if filed beyond nine months.
- Scope of Updated Return (UR) extended to cover loss return even in case of reduction in losses and enabling filing of UR even post reassessment notice with additional tax liability.
- Decriminalization of various offences for prosecution and reducing penal consequences for various provisions.
- Relaxation from prosecution under Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BMA).
- Assessments not to be invalid on ground of any mistake, defect or omission on account of computer-generated Document Identification Number (DIN).
- Tax authority having jurisdiction over taxpayer can only issue reassessment notices.

## Corporate Tax rates

- There are no changes proposed in the Corporate Tax rates (except for Minimum Alternate Tax (MAT) rates) under ITA 1961 and ITA 2025 for tax year 2026-27. Tax rates are summarized below:

Description	Existing rate * (%)	Proposed rate * (%)	Difference + - =
A) Domestic company			
Regular tax			
Companies having turnover not exceeding INR400 crore in tax year 2024-25	26 <sup>1</sup>	26 <sup>1</sup>	
▪ Total income <= INR1 crore	27.82 <sup>2</sup>	27.82 <sup>2</sup>	No change
▪ Total income more than INR1 crore to INR10 crore	29.12 <sup>3</sup>	29.12 <sup>3</sup>	
▪ Total income > INR10 crore			
Companies having turnover > INR400 crore in tax year 2024-25	31.2 <sup>4</sup>	31.2 <sup>4</sup>	
▪ Total income <= INR1 crore	33.38 <sup>5</sup>	33.38 <sup>5</sup>	No change
▪ Total income more than INR1 crore to INR10 crore	34.94 <sup>6</sup>	34.94 <sup>6</sup>	
▪ Total income > INR10 crore			
New manufacturing companies set up and registered on or after 1 October 2019, not availing incentives (optional regime) and commence manufacturing on or before 31 March 2024	17.16 <sup>7</sup>	17.16 <sup>7</sup>	No change
Other domestic companies not availing incentives (optional regime)	25.17 <sup>8</sup>	25.17 <sup>8</sup>	No change
B) Minimum Alternate Tax			
Regular			
▪ Total income <= INR1 crore	15.6 <sup>9</sup>	14.56 <sup>10</sup>	
▪ Total income more than INR1 crore to INR10 crore	16.69 <sup>11</sup>	15.58 <sup>12</sup>	Change
▪ Total income > INR10 crore	17.47 <sup>13</sup>	16.31 <sup>14</sup>	
C) Foreign company			
Regular tax			
▪ Total income <= INR1 crore	36.4 <sup>15</sup>	36.4 <sup>15</sup>	
▪ Total income more than INR1 crore to INR10 crore	37.13 <sup>16</sup>	37.13 <sup>16</sup>	No change
▪ Total income > INR10 crore	38.22 <sup>17</sup>	38.22 <sup>17</sup>	

\* These rates are inclusive of applicable surcharge

<sup>1</sup> 25% plus 4% cess

<sup>2</sup> 25% plus 7% surcharge plus 4% cess on tax and surcharge

<sup>3</sup> 25% plus 12% surcharge plus 4% cess on tax and surcharge

<sup>4</sup> 30% plus 4% cess

<sup>5</sup> 30% plus 7% surcharge plus 4% cess on tax and surcharge

<sup>6</sup> 30% plus 12% surcharge plus 4% cess on tax and surcharge

<sup>7</sup> 15% plus 10% surcharge plus 4% cess on tax and surcharge

<sup>8</sup> 22% plus 10% surcharge plus 4% cess on tax and surcharge

<sup>9</sup> 15% plus 4% cess

<sup>10</sup> 14% plus 4% cess

<sup>11</sup> 15% plus 7% surcharge plus 4% cess on tax and surcharge

<sup>12</sup> 14% plus 7% surcharge plus 4% cess on tax and surcharge

<sup>13</sup> 15% plus 12% surcharge plus 4% cess on tax and surcharge

<sup>14</sup> 14% plus 12% surcharge plus 4% cess on tax and surcharge

<sup>15</sup> 35% plus 4% cess

<sup>16</sup> 35% plus 2% surcharge plus 4% cess on tax and surcharge

<sup>17</sup> 35% plus 5% surcharge plus 4% cess on tax and surcharge

## Rationalization of rate applicable for Tax Collection at Source (TCS)

- The applicable TCS rates on various goods and services is now sought to be rationalized to a uniform rate w.e.f. 1 April 2026.
- Central Board of Direct Taxes (CBDT) FAQ clarifies that rationalization of rates will provide more liquidity to the remitter and minimize locking of funds. The rates are rationalized to only keep track of the transaction.
- Further, Explanatory Memorandum clarifies that for TCS on overseas tour program packages, the threshold limit has been eliminated to avoid concern of shifting business from domestic tour operators to overseas tour operators.
- Below are the TCS rates as applicable -

S. No.	Nature of receipt	Current rate	Proposed rate applicable from 1 April 2026
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 Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding INR10 lakh:	(a) 5% for purposes of education or medical treatment;  (b) 20% for purposes other than education or medical treatment	(a) 2% for purposes of education or medical treatment;  (b) 20% for purposes other than education or medical treatment
6	Sale of overseas tour program 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 thereof up to INR10 lakh  (b) 20% of amount or aggregate thereof in excess of INR10 lakh	2% without any threshold limit

## Withholding tax rate for supply of manpower to be 1% or 2%

- Withholding tax towards supply of manpower services has been a subject matter of dispute wherein payers are of the view that such services being in the nature of "work" are liable for withholding at 1%/2%. On the other hand, tax authorities contend that supply of manpower which involves professional services are subject to withholding rate of 10%<sup>18</sup>.
- In order to resolve ambiguity, FB 2026 now clarifies that supply of manpower shall fall within the ambit of "work" liable for withholding at 1% / 2%.
- This amendment is applicable from 1 April 2026.

<sup>18</sup> Refer illustratively, DCIT vs. Dalmia Cement (Bharat) Ltd. (2016) (70 taxmann.com 221) (Visakhapatnam - Trib.), Lalitpur Power Generation Co. Ltd. vs. ACIT (ITA No. 2922-2944/Del/2016)

## Binding nature of guidelines issued under the TDS/TCS framework

- ITA 2025 enables the CBDT to issue guidelines (with prior approval of the central government) to remove difficulties in giving effect to the TDS/TCS provisions, and such guidelines are to be laid before Parliament. However, there is no express mention of these guidelines to be binding on income-tax authorities and on persons responsible for deducting or collecting tax, which otherwise is provided under ITA 1961.
- To align the provision and provide certainty in administration and compliance, it is now clarified that guidelines issued to remove difficulties in implementing the TDS/TCS provisions will be binding on income-tax authorities as well as on persons liable to deduct or collect income-tax.
- This amendment takes effect from 1 April 2026.

## Enabling taxpayers to file declaration for no deduction of tax through depository

- Currently, taxpayers seeking no deduction of tax at source on certain incomes such as dividends, interest on securities and income from units of mutual funds are required to submit Form 15G or Form 15H, as applicable, to each person responsible for making the payment. Hence, separate declarations are filed with different payers.
- As a measure to ease compliance burden, the taxpayers can file declaration for no deduction of tax at source, to a depository, where income is of the nature: (i) income from units of a mutual fund, (ii) interest income from securities and (iii) dividends. The depositories shall in turn report such declarations to the person responsible for payment of such income.
- It is also proposed that the person responsible for paying such income shall furnish the declaration received by it from the taxpayer to the tax authority on quarterly basis rather than on monthly basis as at present.
- This amendment is effective from 1 April 2027.

## Electronic application for lower/Nil withholding certificate for small taxpayers

- Currently, a taxpayer being payee or buyer/licensee/ lessee, whose income is subject to withholding or collection of tax at source is required to make application to tax authority to issue a lower or nil withholding tax rate certificate. Tax authority issues the certificate after due verification of the payee's/buyer's income.
- To ease the compliance burden, particularly for small taxpayers, the payee will now be required to make online application to prescribed tax authority, subject to conditions to be prescribed, for issuance of lower or nil withholding tax certificate.
- The prescribed authority will issue the certificate subject to fulfilment of conditions to be notified or reject the application where the prescribed conditions are not met or the application is incomplete.
- It may be noted that such online application is not yet proposed for provisions of collection of tax at source.
- This amendment is effective from 1 April 2026.

## Changes in Minimum Alternate Tax (MAT) provisions

- Presently, ITA 1961 provides that every company shall be liable to pay MAT at the rate of 15% plus applicable surcharge and cess on its book profits, in case tax on the total income of a company computed under the normal provisions of the ITA 1961 is less than the MAT liability. Book profit for this purpose is computed by making specified upward and downward adjustments to the profit disclosed in the profit and loss account prepared by the company in accordance with the provisions of the applicable corporate law. Companies operating in International Financial Services Centre (IFSC) are subjected to MAT at a concessional rate of 9%.
- Further, difference in the tax on total income of company computed under normal provisions of ITA 1961 and the MAT paid on book profits, is available as MAT credit to the taxpayer. MAT credit can be carried forward for 15 tax years and can be utilized in a particular tax year in case the tax on the total income of a company computed under normal provisions of ITA 1961 for such a tax year is greater than the MAT computed on book profit and can be utilized to the extent of such difference in tax.
- However, if the company is a domestic company which transitions to new concessional tax regime (CTR) of 22%, no set off of MAT credit with respect to taxes paid under MAT in past years is allowed in the year of transition and subsequent tax years under ITA 1961.
- Pursuant to FB 2026, following provisions are made applicable to ITA 2025 with respect to MAT:
  - MAT rate to be reduced from existing 15% to 14% for both domestic and foreign companies. No change in MAT rate for IFSC units at 9%.
  - For domestic companies continuing under old regime:
    - MAT would be a final tax, and no new MAT credit will be allowed.
    - No set off of past MAT credit to be allowed.
  - For domestic companies transitioning to new CTR of 22% during or after the tax year 2026-27:
    - Set off of MAT credit to be allowed to the extent of 25% of normal tax liability.
    - Balance MAT credit can be carried forward to subsequent tax years and set-off as above (i.e., to the extent of 25% of normal tax liability).
    - Taxpayer can carry forward MAT credit for 15 succeeding tax years from the year in which credit first became allowable.
  - No changes proposed in carry forward and set-off of MAT credit for foreign companies.
  - Further, MAT will be inapplicable to all foreign companies opting for presumptive taxation. Compared to ITA 1961, foreign companies engaged in (a) operating cruise ships, or (b) providing services or technology in India to resident companies engaged in electronic manufacturing under a notified scheme, are now exempt from MAT under ITA 2025.
- These amendments are effective from tax year 2026-27 onwards.

## Rationalization of buyback tax regime

- Currently, consideration received on buyback of shares is taxable as 'dividend income' in the hands of the shareholders, with the cost of acquisition of such shares bought back being available as capital loss separately.
- It is now proposed to rationalize the taxation of such buybacks, whereby consideration on buyback shall now be taxable as 'capital gains' with applicable beneficial tax rates (restoring the position as it stood prior to October 2024).
- However, an additional tax<sup>19</sup> is proposed to be levied for 'promoter' shareholders as below:

Particulars	Promoter is a domestic company	Promoter is other than a domestic company
Gains on buyback is short-term capital gains	2% (effective rate being 22%)	10% (effective rate being 30%)
Gains on buyback is long-term capital gains	9.5% (effective rate being 22%)	17.5% (effective rate being 30%)

- Further, promoter is defined as below:
  - For listed companies - a person as defined under the SEBI regulations; and
  - For unlisted companies - (i) promoter as defined under Companies Act 2013; or (ii) any person holding directly or indirectly, more than 10% shareholding in the company.
- Above amendment will be effective from 1 April 2026 and shall apply from tax year 2026-27 and onwards.

## Due date for deposit of employee's contribution to specified welfare funds aligned with due date of filing return of income of employer

- Under ITA 2025, employee's contribution to specified funds such as Provident Fund, Employees' State Insurance Scheme, etc., is allowed as a deduction only if deposited within the statutory due date prescribed under the respective welfare laws.
- The deduction of employee's contribution in hands of employer will now be allowed if such contribution is deposited on or before the due date for filing the return of income, even where payment is not made within the statutory due date under the respective laws.
- This proposal addresses longstanding stakeholder representations pursuant to Supreme Court's decision in Checkmate Services (P) Ltd<sup>20</sup>, which disallowed such contributions paid after the statutory due date, notwithstanding payment before the return filing due date. The Finance Act 2021 had also codified this ratio in ITA 1961.
- CBDT FAQ issued on 1 February 2026 has clarified that the amendment is intended to align the due date for employee's contribution with that of employer's contribution. However, it may be noted that employer's contribution is allowable in the year of actual payment if not paid within due date of filing return of income but if employee's contributions are delayed beyond that date, it will suffer permanent disallowance.
- This amendment is effective from tax year 2026-27 onwards.

<sup>19</sup> Rates excluding surcharge and cess

<sup>20</sup> (2023)(448 ITR 518); Recently SC has admitted SLP in case of Woodland (Aero Club) Pvt Ltd. vs. ACIT (SLP (C) No. 1532/2026)

## Interest not allowed as a deduction against dividend income

- Presently, under ITA 1961 and ITA 2025, interest expenditure incurred with respect to earning of dividend income or income from units of a mutual fund can be claimed as a deduction while computing income under the head "Income from other sources" subject to cap of 20% of gross income.
- FB 2026 now provides to debar deduction of interest expenditure completely against dividend income or income from units of mutual funds. In other words, dividend income and income from units of mutual funds shall be computed without allowing any deduction for interest expenditure incurred for earning such income.
- This amendment is effective from 1 April 2026.
- While CBDT FAQ clarifies applicability of the said amendment from tax year 2026-27, Explanatory Memorandum creates an ambiguity by referring tax year to 2025-26.

## Scope of minerals eligible for deduction of prospecting and exploration expenditure widened

- Expenditure incurred by Indian companies and resident taxpayers (other than companies) on prospecting or extraction or production of certain specified minerals is eligible for deduction on a deferred basis over 10 years from the year of commercial production.
- To incentivize prospecting and exploration of critical minerals, the existing list has been expanded to cover nine more minerals (Illustratively Beryllium bearing minerals, Graphite, Indium bearing minerals, Potash) eligible for deferred deduction.
- This amendment will be effective from 1 April 2026 and will apply in relation to tax year 2026-27 and subsequent tax years.

## Exemption to foreign company on supply of capital goods, equipment, etc.

- Proposal to provide tax exemption to foreign companies on income arising from providing capital goods, equipment, or tooling to an Indian contract manufacturer.
- The exemption applies when the contract manufacturer is an Indian resident company producing electronic goods for the foreign company located in a custom bonded area.
- This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards). The exemption is available up to the tax year 2030-31.

## Extension of time limit for filing of return for non-audit business cases and trusts

- Due date for filing tax return by the taxpayers, including trust, having income from profits and gains of business or profession whose accounts are not required to be audited and partners, including their spouse, of firm not required to get accounts audited is proposed to be extended to 31 August from 31 July of financial year succeeding the tax year.
- The amendment is applicable from 1 March 2026 for Assessment Year 2026-27 under ITA 1961, and from 1 April 2026 for Tax Year 2026-27 under the ITA 2025.

## Extension of time limit for filing revised return

- FB 2026 extends the time limit for filing of revised return from nine months to twelve months from the end of the relevant tax year to accommodate revision of belated tax returns, which, as per existing timeline coincides with a period of nine months.
- Further, the revised return filed beyond period of nine months is now subject to fee of INR1,000 where income does not exceed INR5 lakh and in other cases, fee of INR5,000.
- The amendment is applicable from 1 March 2026 for Assessment Year 2026-27 under ITA 1961, and from 1 April 2026 for Tax Year 2026-27 under the ITA 2025.

## Scope of filing of Updated Return expanded

### **A. Updated Return (UR) is a loss return:**

- ITA 1961 provides for filing UR in specified cases wherein taxpayer can disclose additional income along with payment of additional tax. Once UR is filed, taxpayer enjoys immunity from levy of penalty and prosecution.
- However, ITA 1961 disqualifies a case where UR is a loss return, though cases of UR of positive income by converting loss reported in original return is permitted. In such cases, taxpayer was also required to file UR for subsequent year/s where such loss was originally set-off.
- FB 2026 provides that a taxpayer can file UR in cases where there is reduction of loss in comparison to what was claimed in original tax return, even if UR remains to be a return of loss.
  - No additional tax is payable in cases where there is only reduction of loss in UR for the year of reduction.
  - Taxpayer is however obligated to also file UR for subsequent tax year/s where such original loss was claimed as set-off and consequently, pay tax, interest and additional tax for such subsequent year/s.
- The amendment is effective from 1 March 2026 for ITA 1961 and from 1 April 2026 for ITA 2025.

### **B. UR in response to reassessment notice:**

- ITA 1961 prohibits filing of UR, among others, for tax year where notice for reassessment has already been issued for such tax year before due date of filing UR.
- FB 2026 now allows a taxpayer to file UR at its option, in response to reassessment notice, within the time allowed in the reassessment notice to file tax return.
  - However, the liability to pay additional tax is further increased by 10%. Accordingly, Taxpayer shall be liable to pay additional tax of 35% / 60% / 70% / 80%, as the case may be, depending upon year under UR.
  - No penalty of under-reporting of income is leviable in respect of additional income offered to tax as part of UR.
  - Once UR is filed, taxpayer is precluded to file normal tax return in response to reassessment notice.
- This amendment is effective from 1 March 2026 for ITA 1961 and 1 April 2026 for ITA 2025.

## Amendment regarding jurisdiction to issue reassessment notices

- Presently, under ITA 1961, there is a dispute as to whether reassessment proceedings are to be initiated through the National Faceless Assessment Centre (NaFAC) or by the jurisdictional tax authority. This has arisen on account of ambiguity created in the "e-Assessment of Income Escaping Assessment Scheme, 2022" regarding the jurisdiction of tax authority for issuing the reassessment notice.
- The courts have taken divergent views, where some courts<sup>21</sup> have held that only the tax authority having jurisdiction over the taxpayer is empowered to issue reassessment notices, while other courts<sup>22</sup> have held that such notices must be issued by NaFAC. At present, this issue is pending before the Supreme Court.
- To settle the controversy, FB 2026 has introduced a retrospective amendment and provides that only the tax authority having jurisdiction over the taxpayer shall have the power to issue reassessment notices.
- The amendment is applicable retrospectively from 1 April 2021 under ITA 1961, and prospectively from 1 April 2026 under the ITA 2025.

<sup>21</sup> Illustratively, Hexaware Technologies Ltd. v. ACIT [2024] 464 ITR 430 (Bombay) [SLP pending before SC - SLP(C) No. 021188/2024 dated 11 September 2024]

<sup>22</sup> Illustratively, T.K.S. Builders (P.) Ltd. v. ITO [2024] 167 taxmann.com 759 (Delhi) [SLP pending before SC - SLP(C) No. 001756/2025 dated 15 March 2025]

## Assessments not to be invalid on ground of any mistake, defect or omission in properly quoting of computer-generated Document Identification Number (DIN)

- Existing provision of ITA 1961 provides that return of income, assessment, notice, summons or other proceeding in pursuance of any provisions of ITA shall not be considered as invalid, merely by reason of any mistake, defect or omission, if in substance and effect, they are in conformity with or according to the intent and purpose of ITA 1961.
- Further, CBDT Circular No. 19 of 2019 dated 14 August 2019, provides for mandatory quoting of a computer-generated DIN inter alia, on every assessment orders passed by the tax authority and clarified that any document generated by tax authority without DIN shall be invalid and deemed to have never been issued.
- Courts<sup>23</sup> have held assessments to be invalid on grounds like non-quoting of DIN on every page of the assessment order or non-quoting of DIN on the body of the order, resulting in annulment of assessments. The issue is presently pending before SC<sup>24</sup>.
- To ensure correct interpretation and reduce future litigations, FB 2026 provides that assessments shall not be treated as invalid on the grounds of any mistake, defect or omission in respect of quoting of a computer-generated DIN, if it is referenced in the assessment order in any manner under any provisions of ITA. Reference of DIN in the assessment order would be sufficient compliance even if there may be some minor mistakes, defects or omissions in notices or summons in relation to such assessment.
- In ITA 2025, this amendment is effective from 1 April 2026. In ITA 1961, this is effective retrospectively from 1 October 2019.

## Rationalization of penalty and prosecution provisions

- FB 2026 has now fully decriminalized following offences:
  - Failure to produce the books of accounts and documents;
  - In the context of tax withholding provisions, failure to pay or ensure the payment of tax where payment is made in "wholly or partly" in kind (i.e., in case of benefits or perquisite provided in the course of business or profession, Or, in case of winnings from lottery, crossword puzzle). Further, in case of payment made for online games and for transfer of Virtual Digital Asset where payment is made "wholly" in kind.
- Punishment for certain offences is softened proportionate to the nature of default by making following broad amendments:
  - Nature of punishment is changed from rigorous imprisonment to simple imprisonment in case of certain defaults;
  - Maximum imprisonment is reduced to six months (where default exceeds INR10 lakh and up to INR50 lakh) and two years (where default amount exceeds INR50 lakh) for first offence and three years for subsequent offence instead of existing limit of seven years. Further, in cases where default is up to INR10 lakh, only fine shall be imposed.
- Penalty for certain technical faults (e.g., failure to get accounts audited, furnishing statement of financial transaction or reportable account, non-furnishing of transfer pricing report) is proposed to be removed and instead a fixed fee will be levied.
- Immunity from imposition of penalty or prosecution presently available in cases of under reporting of income will be extended to the cases of misreporting subject to additional payment of 100% / 120% of tax payable on under-reporting of income.

<sup>23</sup> Illustratively, Bombay HC in Hexaware Technologies Ltd. [2024] 464 ITR 430 (Bombay)[03-05-2024]; Veda Real Estate Corporation (P.) Ltd. [2025] 180 taxmann.com 331 (Mumbai - Trib.) [28-10-2025]; Mohd. Shafiq Cement Store [2025] 210 ITD 1 (Amritsar - Trib. )[18-10-2024]

<sup>24</sup> Hexaware Technologies Ltd., Diary No. 37843-2024; SLP(C) No. 021188 - / 2024

## Penalty for failure and inaccurate furnishing of details in crypto-asset reporting obligations

- FA 2025 introduced obligation on prescribed reporting entities to furnish statements relating to transactions in respect of crypto-asset. The crypto asset reporting framework is yet to be notified. There is no specific penalty provision that expressly penalizes non-furnishing of the statement or furnishing of inaccurate information in relation to such transactions.
- To strengthen compliance, a new provision is proposed to levy penalty for non-furnishing of the statement or for furnishing inaccurate information and failing to rectify such inaccuracies.
- A penalty of INR200 per day will apply for failure to furnish the statement, and a penalty of INR50,000 will apply for furnishing inaccurate particulars or failure to correct them or failure to comply with due diligence requirement under the compliance provision.
- This amendment will be effective from 1 April 2026.

## Relaxation from prosecution under Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BMA)

- Along the lines of immunity from penalty<sup>25</sup> under BMA in cases of failure to furnish tax return in relation to foreign income / asset or failure to disclose information or furnishing inaccurate information, corrective amendment, to bring it at par with penalty provisions, FB 2026 now excludes these defaults also from prosecution with retrospective effect from 1 October 2024.

## Exemption from income arising on compulsory acquisition of land

- Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCLARR Act) provides for complete tax exemption on income arising from compulsory acquisition of immovable property under the said Act.
- While there was no specific provision under ITL 1961 for granting such exemption, CBDT vide Circular No. 36/ 2016 dated 25 October 2016, clarified exemption of income under ITA.
- A specific provision is proposed in ITL 2025 to grant exemption to individuals and HUFs of any income in respect of any award or agreement made on account of compulsory acquisition of any land provided such award or agreement is made under RFCLARR Act.
- This amendment is effective from 1 April 2026 and applicable to tax year 2026-27 and onwards.

<sup>25</sup> in relation to all foreign non- immovable assets provided the aggregate value of such asset/s does not exceed INR20 lakh

Transition provision: Amount allowed as deduction under the repealed law (ITA 1961) to be treated as income under ITA 2025 even without violation of condition

- Under the existing repeal and savings provisions, amounts allowed as deduction or excluded from total income under the repealed ITA 1961 are deemed to be income under the ITA 2025 only where specified conditions under repealed law are violated.
- However, certain provisions under the repealed ITA 1961 require such amounts to be brought to tax in a later year even without violation of any conditions, which were not explicitly covered under the current savings clause. For instance,
  - Exemption claimed on long term capital gains under ITA 1961 by investing in notified bonds is not subject to any specific condition for claim of exemption per se. One can argue that the three-year lock-in period for bonds is not condition for exemption but a clawback provision.
  - Deduction claimed under ITA 1961 on voluntary contribution to National Pension Scheme by taxpayer, but amount is prematurely closed post 1 April 2026 shall be covered. There is no condition under ITA 1961 that there should not be premature withdrawal.
- To address this gap, FB 2026 now clarifies that any sum allowed as deduction or excluded from total income under the repealed ITA 1961 will be deemed to be income under ITA 2025, if such sum would have been taxable under ITA 1961 had it not been repealed.
- This amendment will be effective from 1 April 2026 for tax year 2026-27 and onwards.

*Note: International Financial Services Centre (IFSC) related amendments are captured as part of separate EY alert relating to Financial Services sector*

# Union **BUDGET** 2026-27

## International tax

### Tax break announced on high growth sectors for non-residents

#### Key tax takeaways

##### Cloud-based businesses/ data center sector

- Proposal to provide tax exemption to foreign companies on income arising from procuring data centre services from a specified data center.
- To qualify for the exemption all sales by such foreign company to users located in India must be made through a reseller Indian company.
- A specified data centre must be set up under an approved scheme notified by MeitY and must be owned and operated by an Indian company.
- This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards) and is available up to 31 March 2047.

##### Electronics manufacturing

- Proposal to provide tax exemption to foreign companies on income arising from providing capital goods, equipment, or tooling to an Indian contract manufacturer.
- The exemption applies when the contract manufacturer is an Indian resident company producing electronic goods for the foreign company located in a custom bonded area.
- This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards). The exemption is available up to the tax year 2030-31.

Union  
**BUDGET**  
2026-27

## Budget 2026 reshapes India's Transfer Pricing landscape

Unified Safe Harbours, faster APAs, clearer timelines

### Key tax takeaways

#### Transfer Pricing

- A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors
  - Unified IT services category with a 15.5% Safe Harbour margin and eligibility threshold of INR2,000 crore.
  - Five-year Safe Harbour continuity option, with an automated rule-driven approval process.
  - 15% Safe Harbour for captive data centers; 2% Safe Harbour margin for component warehousing in bonded warehouses by foreign companies.
- Re-enforcing the commitment to enhance the effectiveness of Advance Pricing Agreement (APA) program
  - Unilateral APAs for IT services to be concluded in two years (plus six-month extension on taxpayer's request).
  - Non-resident AEs permitted to file modified tax return. Available only for APA forum, not MAP.
- Restoring the legislative intent by reversing judicial precedents and clarifying assessment timelines
  - TPO order and DRP route timelines clarified.
- Shifting from penalty-based enforcement to a fee-based compliance framework
  - Form 3CEB penalty replaced with graded fee of INR50,000/ INR100,000.
- Unified framework for assessment and penalty proceedings
  - Common order for assessment and penalty and no interest on penalty during first-appeal period.
  - Appeal pre-payment reduced from 20% to 10%.
  - Assessment not invalid due to DIN errors.

### Highlights

**Unified Safe  
Harbour rate (IT  
services sector)**

**15.5%**

**Data center  
services**

**15%**

**Component  
warehousing**

**2% of  
invoice value**



## A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors

India's Safe Harbour Regime is entering a significant phase of simplification, expansion and modernization. The Budget proposals introduce a unified approach to Safe Harbour for IT services, extend certainty to data center services and promote just-in-time supply chains in electronics manufacturing.

These changes aim to enhance predictability, reduce disputes and create a more competitive environment for global businesses operating in India.

### IT services sector

- The current Safe Harbour framework divides IT services into four separate categories:
  - Software development services; IT enabled services; Knowledge process outsourcing; and Contract R&D services relating to software development.
- Each category has different revenue thresholds and safe harbour margins, resulting in inconsistent certainty across the sector.

Services	Safe Harbour rate
Software development services and IT enabled services	<ul style="list-style-type: none"><li>▪ Transaction value does not exceed INR100 crore - 17% on operating cost (OC)</li><li>▪ Transaction value exceeds INR100 crore does not exceed INR300 crore - 18% on OC</li></ul>
Knowledge process outsourcing	<ul style="list-style-type: none"><li>▪ Employee cost is at least 60% of operating expense - 24% on OC</li><li>▪ Employee cost is 40% or more but less than 60% of operating expense - 21% on OC</li><li>▪ Employee cost does not exceed 40% of operating expense - 18% on operating expense</li></ul>
Contract R&D services	<ul style="list-style-type: none"><li>▪ 24% on operating expense</li></ul>

- In the Budget speech, the Finance Minister has proposed the following changes:
  - A unified category of IT services combining (a) software development services, (b) IT enabled services, (c) knowledge process outsourcing and (d) contract R&D services relating to software development.
  - A common Safe Harbour margin of 15.5% shall apply to this unified category.
  - A substantial enhancement of the eligibility threshold from INR300 crore to INR2,000 crore, significantly expanding the number of companies that can rely on Safe Harbour certainty.
- An automated, rule-driven approval process with no tax officer intervention, improving transparency and consistency.
- Once applied, a company may continue using the same Safe Harbour for a continuous block of five years at its option.
- Key open questions on the new SHR regime for unified IT services
  - The new SHR regime may apply only from tax year 2026-27 - All SHR elections, APAs, MAP outcomes and domestic audit results for earlier years remain unaffected.
  - The current SHR has a three-year continuity rule - whether the proposed five-year block is simply replacing this rule or operates differently is unclear.
  - Since the existing SHR definitions are narrow, it is important to examine how the unified IT services definition will be framed and accordingly need to determine the applicability of unified Safe Harbour.
  - Treatment of closely linked transactions (such as trade receivables/trade payables) remains uncertain - There is no clarity on whether the new SHR will cover or exclude such transactions.
  - It is unclear whether the five-year window is mandatory - It needs to be seen if taxpayers can opt in year-on-year as under the existing rules.
  - If a revenue threshold of INR2,000 crore applies, it is unclear whether slabs, similar to the current SHR, will be introduced.

## A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors (continued)

### Data center services

- The Budget speech proposes a Safe Harbour of 15% on cost for an Indian captive data center service provider.

### Electronics manufacturing

- To strengthen India's position in global electronics supply chains, the Budget proposes a Safe Harbour regime for non-residents engaged in component warehousing inside bonded warehouses.
- This measure is aimed at enabling efficient just-in-time logistics, which is critical for modern electronics assembly and high-volume contract manufacturing.
- Under the proposal, non-resident storing components in bonded warehouses will be eligible for a Safe Harbour profit margin of 2% of the invoice value.
- This translates to an effective tax burden of approximately 0.7%, making India cost-competitive compared with logistics hubs in alternative jurisdictions.
- The proposal seeks to provide a safe harbour profit margin of 2% on the invoice value, with a resulting tax incidence is estimated at about 0.7%.
- This proposal is particularly relevant for large OEMs and component ecosystems that rely on synchronized inventory flows, as it lowers compliance friction and aligns tax outcomes with commercial realities.
- The Safe Harbour proposals are currently announcements in the Budget speech.
  - They will require formalization through notified rules before they become operational.
  - The effective date, eligibility conditions and implementation mechanics will need to be evaluated once these rules are issued.

## Re-enforcing the commitment to enhance the effectiveness of Advance Pricing Agreement (APA) program

India's APA programme continues to be a cornerstone of the country's Transfer Pricing dispute-reduction framework.

The Budget proposals reinforce this commitment by introducing measures that enhance certainty, streamline processes and extend benefits to non-resident associated enterprises (AEs).

Together, these steps signal a strong policy intention to make APAs faster, broader and more commercially aligned.

### Fast track of unilateral APA for IT services

- The Budget speech proposes to fast track unilateral APAs relating to IT services with a clear target timeline of two years for conclusion.
  - A further extension of six months may be granted upon the taxpayer's request.
  - This time-bound process aims to address long-standing delays and improve predictability for taxpayers.
- This reform is particularly relevant for IT services companies that often face large Transfer Pricing adjustments and prolonged litigation.
  - By committing to strict timelines, the APA mechanism becomes a more attractive and reliable route for achieving certainty.
- The proposal strengthens the credibility of India's APA programme by linking administrative capability with definitive turnaround standards.

### Modified return by non-resident

- Under current law, a non-resident AE that receives taxable payments such as royalties, interest or fees for technical services typically cannot obtain a refund of taxes withheld, even when a correlative downward adjustment arises from an APA entered into by the resident payer.
  - This creates an economic mismatch because the resident's deduction is reduced, but the non-resident's income remains taxed at the higher, pre-APA amount.
- The Budget proposes an important corrective measure by allowing non-resident AEs to file modified returns to reflect the APA outcome.
  - This enables such AEs to claim a downward adjustment and seek refund of excess taxes paid or withheld.
  - The modified return must be filed within 3 months from the end of the month in which the APA is concluded.
- This is a significant development as it strengthens the integrity of bilateral Transfer Pricing outcomes by ensuring that both sides of the transaction align to the APA position.
  - However, the amendment applies only in the context of APAs and not to Mutual Agreement Procedure (MAP) cases, which may create asymmetry in dispute-resolution avenues.
- Interplay between provisions of law relating to downward TP adjustment and this amendment needs to be carefully evaluated. Currently, no amendment proposed to the provisions addressing downward adjustment [Section 92(3) of the Income-tax Act, 1961 / Section 161(4) of the Income-tax Act, 2025].
- This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards).

### Restoring the legislative intent by reversing judicial precedents and defining assessment timelines

#### Clarification on the manner of computation of 60 days for Transfer Pricing Officer to pass the Transfer Pricing order for a tax year.

- Persistent uncertainty existed on how to compute the statutory 60-day time limit available to the TPO for passing the Transfer Pricing order for a tax year.
  - The ambiguity primarily arose because the law did not explicitly clarify whether the 60-day period should be counted from the due date for passing the draft assessment order or from the actual date on which the Assessing Officer issued (or was required to issue) the draft order.
  - This resulted in frequent disputes and litigation, particularly where assessments were time-barred or where the interplay between the TPO's order date and the AO's draft order date was questioned.
- Proposal to clarify the manner of computing the 60-day time limit available to the TPO for passing an order determining the ALP.
  - Under Income-tax Act, 1961

Scenario	Timeline to pass TPO order
Where assessment limitation expires on 31 March (non-leap year)	▪ 30 January of that year
Where assessment limitation expires on 31 March (leap year)	▪ 31 January of that year
Where assessment limitation expires on 31 December	▪ 1 November of that year

- Under Income-tax Act, 2025

Scenario	Timeline to pass TPO order
Where assessment limitation expires on 31 March (non-leap year)	▪ 31 January of that year
Where assessment limitation expires on 31 December	▪ 31 October of that year

- This clarification aims to restore legislative certainty and remove interpretational challenges. The above proposals nullify the judicial precedents that have taken a contrary view.
- The amendment will take effect retrospectively from 1 June 2007.
- This amendment will be incorporated under both Income-tax Act, 1961 and Income-tax Act, 2025.

#### **Draft assessment orders under the Dispute Resolution Panel (DRP) route: Impact on assessment timelines**

- A few recent judicial decisions narrowed the permissible window for assessments by strictly construing statutory time limit
- Proposal now to clarify that a draft assessment order may be issued at any time within the prescribed time limit for completing an assessment, reassessment, or re-computation.
- Proposal to provide that the assessment will continue under the DRP process ('DRP time-lines') and will not become time-barred.
- The time available to the Assessing Officer to complete the assessment thereafter will be governed by the DRP timelines, and not by the general limitation provisions.
- These amendments will apply retrospectively from 1 April 2009 for regular assessments and from 1 October 2009 for search-related assessments.
- The above proposals nullify the judicial precedents that have taken a contrary view.
- This amendment will be incorporated under both Income-tax Act, 1961 and Income-tax Act, 2025.

#### **Shifting from penalty-based enforcement to a fee-based compliance framework**

- Income-tax Act, 1961 enforces a penal framework for non-compliance with the Form 3CEB filing within the due date whereby fixed penalty of INR100,000 is levied.
- Proposal to convert the fixed penalty of INR 100,000 for failure to furnish Form 3CEB into mandatory graded fee.

Scenario	Revised fee
Delay of up to one month	<ul style="list-style-type: none"> <li>▪ INR50,000</li> </ul>
Delay beyond one month	<ul style="list-style-type: none"> <li>▪ INR100,000</li> </ul>

- This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards).

#### **Unified framework for assessment and penalty proceedings**

- Assessment and penalty proceedings will now be integrated through a common order to reduce multiplicity and improve ease of doing business.
- No interest will apply on the penalty amount during the appeal period before the first appellate authority, regardless of the outcome of the appeal.
- The pre payment requirement for filing an appeal will reduce from 20% to 10% and will continue to be computed on the core tax demand.
- It is now clarified that an assessment will not be treated as invalid merely due to a mistake, defect or omission in quoting the Document Identification Number (DIN).
- This clarification will be incorporated under both Income-tax Act, 1961 and Income-tax Act, 2025.

#### **Specified domestic transactions**

- Proposal to exclude transactions with newly established SEZ units from the scope of SDT.
- No deduction will be allowed for transactions connected with newly established SEZ units for the income enhanced after ALP computation.

# Union **BUDGET** 2026-27

## Rationalization of buyback tax regime

- Currently, consideration received on buyback of shares is taxable as 'dividend income' in the hands of the shareholders, with the cost of acquisition of such shares bought back being available as capital loss separately.
- It is now proposed to rationalize the taxation of such buybacks, whereby consideration on buyback shall now be taxable as 'capital gains' (restoring the position as it stood prior to October 2024).
- However, an additional tax is proposed to be levied for 'promoter' shareholders, being defined as:
  - For listed companies - a person as defined under the SEBI regulations; and
  - For unlisted companies - (i) a promoter as defined under the Companies Act 2013; or (ii) any person holding directly or indirectly more than 10% shareholding in the company.
- Above amendment would inter-alia have following key implications:
  - All shareholders will pay tax on net 'capital gains' (instead of gross 'dividend' income).
  - Non-promoter shareholders should be taxable at beneficial capital gains tax rates.
- Eligible capital losses may be available for set-off against such capital gains income (if any).
- The above amendment will be effective from 1 April 2026.

# Union **BUDGET** 2026-27

## Indirect Taxes

The Budget aims to promote export competitiveness, correct inversion in duty, simplify the tariff structure and support domestic manufacturing

### Key tax takeaways

#### Goods and Services Tax

- Place of supply of intermediary services to be the location of recipient of service.
- Condition requiring discounts to be pre-agreed and linked to specific invoice to be omitted.
- Discount to be allowed as deduction where GST credit note is issued and corresponding input tax credit is reversed by the recipient.
- Provisional refund to be granted for refunds arising from inverted tax structure.
- Government may, pending the constitution of the National Appellate Authority, by notification empower an existing Authority, for hearing appeals.

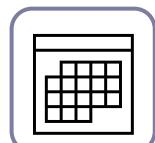
#### Customs

- Specified exemptions to be withdrawn, modified and sunset clauses extended.
- New tariff entries to be introduced from 1 May 2026 for better product identification.
- Validity of advance ruling to be extended from three years to five years, unless there is a change in law or facts.
- Deferred Payment of Import Duty Rules, 2016 is being amended to allow monthly duty payment in place of existing 15 days for all eligible importers.
- Benefit of deferred duty payment to be also extended to 'manufacturer importer' till 31 March 2028.

### Highlights



Location of service recipient to be the place of supply for intermediary services



Deferred duty payment timelines extended

Rate calibration and extension of specified exemptions

## Goods and Services Tax

### Place of Supply

- Place of supply of intermediary services as the location of the supplier to be omitted. Post omission, the place of supply for such services will be determined basis the general rule of location of recipient of the service.

### Discounts

- Conditions for establishing post-supply discount under an agreement entered into before or at the time of such supply and linking of the credit note to an invoice to be omitted.
- Discount to be allowed as deduction where GST credit note is issued and corresponding input tax credit is reversed by the recipient. No other condition is required to establish GST adjustment.

### Refunds

- Provisional refund amounting to 90% of the claimed amount to be granted in case of inverted tax refunds filed in cases where the rate of tax on inputs is higher than the rate of tax on the output.
- Above amendments will be effective from a date to be notified.

### Advance ruling

- The government will be empowered to notify any existing authority constituted under any law (including a Tribunal) to hear appeals arising from conflicting advance rulings given by the Appellate Authorities of two or more States or Union Territories till the time NAAAR is constituted.
- Provisions relating to the constitution, structure, and procedural framework of NAAAR will not apply to such empowered authority.
- This change will be effective from 1 April 2026.

## Highlights



**GST adjustments of discounts to be allowed even if not pre-agreed**



**Provisional refund in case of inverted tax structure**

## Customs

### Validity of advance ruling

- Validity of advance ruling proposed to be extended from three years to five years, unless there is a change in law or facts.
- Five-year validity from date of ruling to apply to advance rulings which are already in force on the date when the Finance Bill, 2026 receives the assent of the President. This is subject to request for extension by the applicant.

### Penalty payment deemed as a charge for non-payment of duty

- Payment of penalty equal to 15% of duty within 30 days from the date of notice, shall be deemed to be a charge for 'non-payment of duty'.

### Transfer of goods between warehouses

- Owner of any warehoused goods will be allowed to transfer them from one warehouse to another without permission from the proper officer subject to the prescribed conditions.

### Baggage Rules

- New Baggage Rules, 2026 are being introduced with effect from 2 February 2026.
- Enhance duty-free allowance for passengers:
  - from INR50,000 to INR75,000 for Indian residents; foreigners with valid visa (other than tourist visa); and tourists of Indian origin; and
  - from INR15,000 to INR25,000 for tourists of foreign origin.
- Remove monetary caps but retain weight limits on jewelry allowance for Indian resident or tourist of Indian origin residing abroad for more than one year.
- Restructure Transfer of Residence benefits, based on duration of stay, for Indian residents and foreign professionals returning to India.

### Other proposals

- Specified exemptions to be withdrawn, modified and sunset clauses extended. New tariff entries to be introduced from 1 May 2026 for better product identification.
- CBIC to be empowered to also frame regulations governing the 'custody' of import or export of goods by post or courier.
- Deferred Payment of Import Duty Rules, 2016 are being amended to allow monthly duty payment in place of existing 15 days for all notified importers effective 01 March 2026. The benefit to also be extended to 'manufacturer importer' till 31 March 2028.
- Removal of the value cap of INR10 lakh for commercial courier exports, subject to applicable laws.
- Customs regime to move towards a trust-based import facilitation framework, by introducing Auto Goods Registration and Auto Out-of-Charge for imports.
- Digital governance to be strengthened through SWIFT 2.0, which integrates all Participating Government Agencies on a single platform for greater transparency.
- Customs Integrated System is proposed with an objective to create a unified digital ecosystem covering import, export and transhipment across all modes.

## Highlights

### Validity of Advance Ruling

3  5  
years years

Penalty payment  
deemed as a  
charge for non-  
payment of duty



No prior permission for  
movement of goods  
between warehouses

Rate calibration  
and extension of  
specified  
exemptions

# Union **BUDGET** 2026-27

## Budget proposals impacting individual taxpayers

### Personal Tax

#### Key tax takeaways

##### Personal Tax rates:

- The existing income-tax rates and slab structure under both the old tax regime and the new tax regime have been retained without any modifications.

##### New Income Tax Act, 2025:

- Income Tax Act, 2025 will come into effect from 1 April 2026. The simplified Income Tax Rules and Forms will be notified shortly, providing adequate time to taxpayers to acquaint themselves with its requirements. The forms have been redesigned such that ordinary citizens can comply without difficulty.

##### Updated timelines for filing original and revised tax returns:

- Time limit for revising the income-tax return will now be extended from 31 December to 31 March with a nominal fee of INR1,000 (for income up to INR5 lakh) or INR5,000 (for income above INR5 lakh) where the revision is made after 31 December. The due date to file original tax return for non-audit business cases and trusts is extended to 31 August, while all other individual taxpayers will continue to file income-tax returns by 31 July.

##### Investments in India by PROI (Person Resident Outside India):

- Individual PROIs are permitted to invest in equity instruments of listed Indian companies through Portfolio Investment Scheme (PIS). Individual PROI limit under PIS is now increased from 5% to 10% with the overall limit increased from 10% to 24%.

### Highlights

No change in Personal Tax rates

Staggered tax return timelines

Rationalization of TCS rates

5-year tax exemption for foreign income of specified experts rendering services in India in connection with Government notified schemes

Immunity for Foreign Asset Non Disclosure

## Relaxation for Resident Individuals/Hindu Undivided Families (HUFs) buying property from non-residents:

- Resident individuals or HUFs purchasing immovable property from a non-resident will no longer be required to obtain a tax deduction and collection account number (TAN), as tax deducted at source (TDS) can now be deposited using resident buyer's PAN-based challan.

## Reduction of TCS rates:

- The tax collected at source (TCS) rate on overseas tour packages is now reduced from 5%/20% to a flat 2%, with no threshold. Similarly, the TCS rate on LRS remittances for Education and Medical purposes is now reduced from 5% to 2%.

## Foreign assets disclosure:

- A one-time six-month disclosure window will allow small taxpayers to regularize overseas assets or income disclosure. The Scheme will be introduced for individuals:
  - Category A - who did not disclose their overseas income or asset; and
  - Category B - who disclosed their overseas income and paid applicable tax but have not declared overseas asset
- For category (A), the limit of undisclosed income and asset is proposed to be up to INR1 crore. Amount payable is dependent on whether there is undisclosed income or asset or both (i) 30% of value of the undisclosed asset as on 31 March 2026, (ii) 30% of undisclosed income, and an amount equal to 100% of the additional tax as determined in (i) and (ii). Immunity would be granted from prosecution.
- For category (B), where the value of the undisclosed asset is up to INR5 crore, a fee of INR1 lakh would be required to be paid, and immunity would be granted from both penalty and prosecution.

## Immunity for non-disclosure of foreign assets:

- Immunity from prosecution for non-disclosure of non-immovable foreign assets valued below INR20 lakh with retrospective effect from 1 October 2024, providing relief to taxpayers who may have inadvertently missed reporting such assets.

## Increase in levy of Securities Transaction Tax (STT):

- The STT rates on futures is now raised from 0.02% to 0.05% and STT on options premium and exercise of options is raised from 0.1% and 0.125%, respectively, to 0.15%.

## Exemption to non-residents experts providing specified services in India:

- An individual who has been non-resident for five consecutive tax years immediately preceding the tax year in which he/she visits India for the first time for rendering certain services in connection with any notified Scheme of the Central Government is now provided with an exemption from Income-tax for five consecutive tax years (commencing from the first tax year during which the taxpayer visits India) on income which accrues/ arises outside India and is not deemed to accrue/arise in India.

## Lower/nil TDS Certificates - Form 15G/15H Filing:

- To ease the tax deduction for small taxpayers, the Budget introduces a rule-based automated online system for issuing lower or nil TDS deduction certificates and enables depositories to accept Form 15G/15H centrally and transmit them to all relevant companies.

## Baggage rules:

- Baggage Rules 2026 will replace the existing Baggage Rules, 2016 with effect from 2 February 2026. People traveling to India need to keep themselves informed of the new rules pertaining to various entitlements of bringing luggage/goods to India.

## Motor accident compensation:

- Interest received by an individual or legal heir on any compensation awarded by the Motor Accidents Claims Tribunal shall be exempt from income-tax. No tax shall be deducted at source on the interest component of compensation awarded, which will help individuals to mitigate the hardship arising from accidents.

## Glossary

AE - Associated Enterprise

APA - Advance Pricing Agreement

DIN - Document Identification Number

DRP - Dispute Resolution Panel

INR - Indian Rupee

IT - Information Technology

MAP - Mutual Agreement Procedure

NR - Non-resident

R&D - Research & development

SDT - Specified Domestic Transaction

SHR - Safe Harbour Regime

TP - Transfer Pricing

TPO - Transfer Pricing Officer

CBDT - Central Board of Direct Taxes

EGR - Electronic Gold Receipts

FB - Finance Bill

MAT - Minimum Alternate Tax

MSME - Micro, Small and Medium Enterprise

MSME Act- Micro, Small and Medium Enterprise Development Act 2006

NR - Non-resident

ITL - Income Tax Act 1961 read with Income Tax Rules 1962

PE - Permanent Establishment

WHT - Withholding taxes

AIDC - Agriculture Infrastructure and Development Cess

BCD - Basic Customs Duty

CESTAT - Customs, Excise and Service Tax Appellate Tribunal

CGST Act - Central Goods and Services Tax Act, 2017

GST - Goods and Services Tax

IGST - Integrated Goods and Services Tax

ITC - Input Tax Credit

SWS - Social Welfare Surcharge

APA - Advance Pricing Agreement

# Glossary

FRBM - Fiscal Responsibility and Budget Management

GoI - Government of India

GST - Goods and Services Tax

GTR - Gross tax revenues

IPD - Implicit price deflator

CIT(A) - Commissioner of Income Tax (Appeals)

SDT - Specified Domestic Transaction

TP - Transfer Pricing

TPO - Transfer Pricing Officer

CGST Act - Central Goods and Services Tax Act, 2017

GST - Goods and Services Tax

IGST Act - Integrated Goods and Services Tax Act, 2017

ITC - Input Tax Credit

NAAAR - National Appellate Authority for Advance Ruling

CBIC - Central Board of Indirect Taxes and Customs



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1st Floor, Campus 1C  
Ecospace Business Park  
Outer Ring Road,  
Bellandur - Sarjapura Area, Varthur Hobli,  
Bengaluru Urban - 561013

## Bhubaneswar

8th Floor, O-Hub, Tower A  
Chandaka SEZ, Bhubaneswar  
Odisha - 751024  
Tel: + 91 674 274 4490

## Chandigarh

Elante offices, Unit No. B-613 & 614  
6th Floor, Plot No- 178-178A  
Industrial & Business Park, Phase-I  
Chandigarh - 160 002  
Tel: + 91 172 6717800

## Chennai

6th & 7th Floor, A Block,  
Tidel Park, No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## Delhi NCR

Aikyam  
Ground Floor  
67, Institutional Area  
Sector 44, Gurugram - 122 003  
Haryana  
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B  
Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel: + 91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18th Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

THE SKYVIEW 20  
2nd Floor, 201 & 202  
Right Wing, Survey No 83/1  
Raidurgam, Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## Jaipur

9th floor, Jewel of India  
Horizon Tower, JLN Marg  
Opp Jaipur Stock Exchange  
Jaipur, Rajasthan - 302018

## Kochi

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 433 4000

## Kolkata

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

6th floor, Sector V,  
Building Omega, Bengal Intelligent  
Park, Salt Lake Electronics  
Complex, Bidhan Nagar  
Kolkata - 700 091  
Tel: + 91 33 6615 3400

## Mumbai

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

5th Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301  
Building No.1, Mindspace-Gigaplex  
IT Park, MIDC, Plot No. IT-5  
Airoli Knowledge Park  
Airoli West, Navi Mumbai - 400 708  
Tel: + 91 22 6192 0003

18th Floor, Altimus  
Pandurang Budhkar Marg  
Worli, Mumbai - 400 018  
Tel: + 91 22 6192 0503

## Pune

C-401, 4th Floor  
Panchshil Tech Park, Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

10th Floor, Smartworks  
M-Agile, Pan Card Club Road  
Baner, Pune - 411 045  
Tel: + 91 20 4912 6800

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