

1 February 2026

Tax Alert - Key announcements
of Union Budget 2026



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Union BUDGET 2026-27

Real Estate | Cornerstone of economic growth

Policy and tax reforms impacting the Real Estate sector



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The Finance Minister's eagerly awaited ninth consecutive Budget emphasized manufacturing, cities and connectivity as the core of India's growth responsibility.

While the push to scale up manufacturing, revive legacy industries and develop townships is expected to support the real estate sector over time, the Budget has not prioritized sector-specific expectations.

However, the proposal to monetize public sector real estate assets by launching dedicated REITs is welcome and should provide additional avenues for institutional participation, unlocking value for idle assets and contributing to recycling capital.

#EYonBudget2026

How does the budget impact Real Estate sector?

Key tax updates

- Deduction under IFHP (w.e.f. 1 April 2026)
 - For self-occupied property, prior period interest on borrowings is deductible in five equal instalments post construction completion and is included within the cap of INR2 lakh of annual interest deduction.
 - Under the New Act, the prior period interest deduction is inserted as an addition to an annual interest deduction of INR2 lakh. However, the Budget aligns the said provisions with the Old Act, thereby restricting the overall threshold for interest deduction to INR2 lakh.
- Simplified TDS compliance for resident buyers of property from non-residents (w.e.f. 1 October 2026)
 - Resident individuals and HUFs purchasing property from non-resident sellers can deduct TDS by quoting PAN and will no longer need to obtain a TAN.
- Buy-back tax (w.e.f. 1 April 2026)
 - Consideration received on buy-back of shares shall be taxable as "Capital Gains" vis-à-vis dividend and entitlement of capital loss for the cost of shares (*as amended by FA 2024*).
 - However, the promoters (*as defined below*) to pay the following final taxes in addition to the base capital gains tax.

Income	Promoters being a domestic company		Other promoters	
	Additional levy	Effective tax rate ¹	Additional levy	Effective tax rate ¹
Short term (<i>listed shares</i>)	2%	22% (20% + 2%)	10%	30% (20% + 10%)
Long term (listed and unlisted shares)	9.5%	22% (12.5% + 9.5%)	17.5%	30% (12.5% + 17.5%)

- The term 'Promoter' has the following meaning:
 - In case of a listed company, as defined in the regulation 2(k) of SEBI (Buy-Back of Securities) Regulations, 2018.
 - In any other case, as defined in Section 2(69) of the Companies Act, 2013; or a person directly or indirectly holding more than 10% of the shareholding in the company.
- Changes proposed in respect of Minimum Alternate Tax (w.e.f. 1 April 2026)
 - MAT (only applicable to companies under old regime) proposed to be reduced from existing 15%¹ to 14%¹.
 - Where domestic companies continue under the old regime post 31 March 2026, it is proposed that:
 - Where tax is computed under MAT, it shall be the final tax levy and accordingly, no new MAT credit to be generated.
 - Brought forward MAT credit as on 31 March 2026 shall not be available for set-off until shifted to the new regime.
 - However, where domestic companies migrate to the new regime during or after the tax year 2026-27, set off of MAT credit shall be available as follows:
 - Set off restricted to 25% of normal tax liability in a year.
 - Credit can be carried forward and utilized within the existing limit of 15 years from the date MAT credit was generated.

¹ excluding surcharge and cess

How does the budget impact Real Estate sector?

Key tax updates

- Aligning the income-tax exemption on compulsory acquisition of any land under RFCTLARR (w.e.f. 1 April 2026)
 - Capital gains arising from transfer of agricultural land is exempt for individuals and HUFs. However, CBDT Circular No. 36/2016 clarified that any compensation received in respect of award or agreement under RFCTLARR Act should also be exempt.
 - With effect from 1 April 2026, the proposed amendment shall subsume the aforesaid circular under the New Act and thereby provide tax exemptions on compulsory acquisition of any land under RFCTLARR.
- Extension in tax holiday period for units in IFSC and rationalization of tax rate
 - Presently, 100% tax holiday is available to all units (other than OBUs) for 10 consecutive years out of 15 years; for non-tax holiday period, taxes are levied at applicable rates in force.
 - Tax holiday is now proposed to be extended to 20 consecutive years out of 25 years. Further, for non-tax holiday period, tax on eligible income shall be at 15%.
 - A unit set up after 1 April 2026 should not be formed by splitting up or reconstruction or reorganization or transfer of a business already in existence in India.

Other tax and policy updates

- Special REITs to be launched for monetization of central public sector enterprise assets.
- Continued focus on Tier 2, Tier 3 cities (and now including temple towns) by allocating INR5,000 crore over five years per City Economic Region (CER).
- Boost to industrial and logistic corridors through university townships development, including research institutions, skill centres and residential complexes.
- Development of textile parks, chemical parks and dedicated rail freight corridors to enhance manufacturing in India.
- Promoting foreign investments in data centers located in India by introducing tax holiday to foreign companies up to 31 March 2047 on any income by way of procuring data center services from a specified data center in India. Sale of such services to Indian users by the foreign company shall be made through an Indian reseller entity.
- Proposal to converge ICDS with Ind AS through a joint MCA-CBDT Committee, with a view to eliminate separate ICDS-based accounting for tax purposes from FY 2027-28.
- Presently, deduction of interest expenditure is allowed up to 20% of the dividend income offered under IFOS. Budget 2026 proposes to delete this deduction.
- Comprehensive review of Foreign Exchange Management (Non-Debt Instruments) Rules with an aim to align with India's broader economic focus.

Highlights



**Dedicated REITs
for public sector
real estate assets**

**For Tier 2, Tier 3 cities
and temple towns over
the next 5 years**

**INR5,000 crore
per CER**

**Fostering data
centers**

**Tax holiday to
foreign cloud
service provider**



**up to
2047**

Impact analysis

- The sustained focus on the development of Tier 2, Tier 3 cities, and including temple towns in planned growth clusters, is likely to unlock new residential, industrial, logistics and mixed-use real estate and open new opportunities for established and emerging markets.
- The proposal of launching dedicated REITs for central public sector enterprises symbolizes a significant and forward-looking step to public asset management. Monetization of these assets through REITs opens new avenues for investors by offering a stable and diversified asset class.
- While the MAT amendments seek to promote the transition to the new tax regime, considering that unitholder dividend exemption continues to be available only when the underlying SPVs remain under the old regime, REIT managers would need to carefully assess the cost-benefit analysis.
- The proposed tax holiday for foreign cloud service providers embodies India's emergence as a global data center hub and is likely to catalyze increased foreign investment and accelerate sectoral growth.
- The Budget proposals seem to strengthen the overall real estate ecosystem as part of the broader economic expansion.

Glossary

CBDT - Central Board of Direct Taxes

CER - City Economic Region

FA - Finance (No. 2) Act 2024

HUF - Hindu Undivided Family

ICDS - Income Computation and Disclosure Standard

IFHP - Income From House Property

IFSC - International Financial Services Centre

INR - Indian Rupees

MAT - Minimum Alternate Tax

MCA - Ministry of Corporate Affairs

New Act - Income-tax Act, 2025

OBU - Offshore Banking Unit

Old Act - Income-tax Act, 1961

PAN - Permanent Account Number

RFCTLARR - Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013

REIT - Real Estate Investment Trust

SEBI - Securities Exchange Board of India

SPV - Special Purpose Vehicle

TDS - Tax Deducted at Source

TAN - Tax deduction and collection Account Number

w.e.f - With Effect From



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