

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA (DUBAI) CHAPTER NPIO

Union Budget 2026 – From Vision to Value



Tax Implication of Budget 2026

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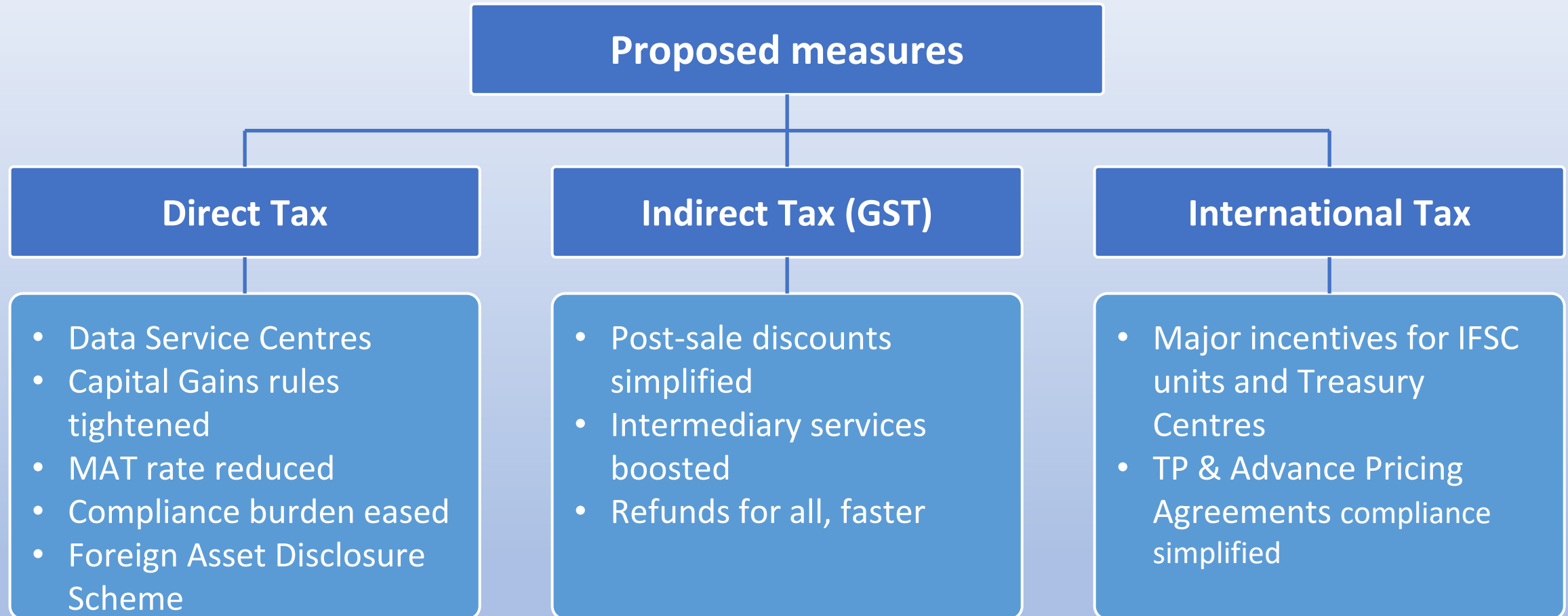
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Budget 2026 - Overview



Direct Tax Amendments

New Tax Exemption for Foreign Companies Using Indian Data Centres

A. Existing and Proposed Amendments:

- The existing provisions of section 11 read with Schedule IV of the Income-Tax Act, 2025 ('Act') specifies the eligible income, which shall not be included in the total income of the eligible non-residents, foreign companies and other such persons.
- In order to attract investment in data centre and promote artificial intelligence data centre framework in India, it is proposed to amend the Schedule IV to provide exemption to a foreign company, on any income accruing or arising in India or deemed to accrue or arise in India by way of procuring data centre services from a specified data centre, for a period up to tax year ending on 31st March, 2047.
- One of the conditions for exemption is that where services are provided to India users by the foreign company, it shall be routed through an Indian reseller entity.
- For the purposes of above provisions, it is also proposed to define the following terms, namely: -
 - (a) "data centre" means a dedicated secure space within a building or centralised location where computing and networking equipment is concentrated for the purpose of collecting, storing, processing, distributing or allowing access to large amounts of data;
 - (b) "data centre services" means services provided by a data centre through the use of physical infrastructure including land, buildings, mechanical electrical power equipment's, cooling system, security and information technology infrastructure including servers, computers, storage systems, operating systems, security solutions, network and associated software platforms, networking and other equipment, human resource in India;
 - (c) "specified data centre" means a data centre which—
 - (i) is set up under an approved scheme and is notified in this behalf by the Central Government in the Ministry of Electronics and Information Technology; and
 - (ii) is owned and operated by an Indian company.
- These amendments will take effect from the 1st day of April, 2026 and shall accordingly, apply in relation to the tax year 2026-27 and subsequent tax years.

New Tax Exemption for Foreign Companies Using Indian Data Centres

B. Implications of the Proposed Amendments:

- The Budget has introduced landmark changes aimed at establishing India as a global hub for Artificial Intelligence (AI) and Cloud computing, with a specific focus on expanding data-centre infrastructure through long-term tax incentives and regulatory certainty. The proposals are intended to accelerate the growth of India's data-centre capacity from around 1.3 GW to over 8 GW by 2030, reducing dependence on imports and strengthening the domestic digital ecosystem.
- Accordingly, a tax holiday has been proposed for foreign companies that use "specified" data-centres located in India to provide cloud services to customers globally. This 20+ year tax exemption aims to encourage foreign companies to base their critical digital infrastructure in India.
- Also, to reduce transfer pricing disputes, the Budget proposes a 15% safe-harbour margin on costs for Indian data-centre service providers that are related parties to foreign cloud service providers. This ensures predictability in taxation for inter-company transactions.
- To ensure local economic participation, foreign companies leveraging this tax holiday must provide services to Indian customers through an Indian-incorporated reseller entity.
- To address energy reliability concerns for data-centres, the Budget provides duty exemptions on capital goods for Battery Energy Storage Systems (BESS) manufacturing.

Summary - New Tax Exemption for Foreign Companies Using Indian Data Centres

Establishing India as a global hub for AI and Cloud Computing.

Exemption



Foreign companies are exempt from tax on income arising in India from services procured from **'specified data centres'**.

Duration



Extensive tax holiday effective up to **March 31, 2047**.

Local Participation



Services provided to Indian users **must be routed through an Indian reseller entity**.

Effective Date



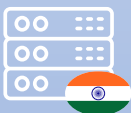
Commences from **April 1, 2026** (Tax Year 2026-27 and subsequent years).

Summary - Data Centre Exemption: Scope and Intent to Build an AI/Cloud Hub

Key Definitions



- **Data Centre:** Dedicated space with computing/networking equipment for large-scale data processing and storage.



- **Specified Data Centre:** Must be set up under a government-approved scheme and be **owned/operated by an Indian company**.

Strategic Objectives



- **Transfer Pricing Certainty:** Proposed **15% safe-harbour margin** on costs for Indian data-centre providers (related to foreign cloud firms) to minimize litigation.



- **Energy Reliability:** Duty exemptions on capital goods for **Battery Energy Storage Systems (BESS)** to ensure uninterrupted operations.

Income from Business and Profession

Employee's Contribution to Specified Funds

Current Provision

- Deductions for contributions to funds like **Provident Fund (PF)** and **Employees' State Insurance (ESI)** are allowed only if deposited **within the statutory due date** of the respective laws.



Proposed Amendment

- Deduction will now be allowed if the contribution is deposited on or before the **due date for filing the return of income (ITR)**.
- This applies even if the payment is made after the statutory due date prescribed under PF/ESI laws.

Income From Capital Gains: Taxation of Share Buyback

Taxation of Buyback of Shares:

As per Budget 2026, profits from share buybacks will be taxed as **capital gains** for all shareholders, aligning them with the tax treatment of other capital gains.



1. Taxation Rates for Shareholders:

Particulars	LTCG Tax Rate	STCG Tax Rate
Listed Equity Shares	12.5% (Exemption up to ₹1.25L)	20%
Unlisted Equity Shares	12.5% (No Exemption)	Slab Rates



2. Additional Buyback Tax for Promoters (to prevent tax arbitrage):

Category of Promoter	Proposed Effective Tax Rate*
Promoter – Individual	30%
Promoter – Company	22%

*Effective tax rate includes applicable tax and additional tax, as prescribed.



Effective Date: These amendments will come into effect from **1st April 2026** and will apply from **Tax Year 2026-27** onwards.

Tax Deduction - Incentives for Critical Minerals

Deduction for Critical Mineral Exploration

Section 51 of the Act provides for tax deductibility of expenses incurred by an Indian company or resident taxpayers (other than companies) engaged in any operations relating to prospecting or extraction or production of the minerals mentioned in Part A and Part B of the Schedule XII of the Act. This section allows deduction, on deferred basis (over a span of 10 years from the year of commercial production of any specified mineral), in respect of expenses incurred wholly and exclusively on operations relating to prospecting or on the development of mine or other natural deposit of specified minerals incurred at any time during the year of commercial production and any one or more of the four years immediately preceding the year of commercial production

Accordingly, to boost domestic production, the list of minerals eligible for deduction on prospecting expenditure has been expanded to include:

- Beryllium, Graphite, **Lithium**, Indium, Niobium, Tantalum, Potash, Rhenium

The Budget introduces major initiatives for critical minerals, focusing on reducing import reliance and boosting domestic production through the National Critical Mineral Mission (NCMM) (with ₹440 crore allocated). Key measures include setting up dedicated rare earth corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu, eliminating customs duty on Monazite, and offering capital subsidies under the ₹7,280 crore Rare Earth Permanent Magnet (REPM) Manufacturing Schemes.

Capital Gains: Sovereign Gold Bonds (SGB) Exemption Restricted

Sovereign Gold Bonds (SGBs)



Section 70 – Transaction not regarded as Transfer (The Income Tax Act 2025)

Section 70(1)(x) – Transfer of Sovereign Gold Bond issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015, by way of redemption, by an individual.

Proposed, Transfer by way of redemption, of Sovereign Gold Bond issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015 or any subsequent Sovereign Gold Bond Scheme, if held by an individual from the date of original issue till maturity.

- Exemption now exclusive to **original subscribers** holding until maturity.
- **Secondary Market:** SGBs purchased on the secondary market are now subject to **standard capital gains tax** upon redemption.

Capital Gains: SGB Exemption Restricted

Sovereign Gold Bonds



The amendment is to restrict the capital gains tax exemption on redemption of Sovereign Gold Bonds exclusively to investors who subscribed to the bonds at the time of original issuance and held them continuously until maturity. It withdraws the exemption for secondary market purchasers, thereby eliminating the arbitrage opportunity that allowed such investors to enjoy tax benefits without participating in the original issuance.

Going forward, SGBs purchased from the secondary market shall be treated as regular capital assets, with:

- Short-term capital gains taxable at applicable slab rates; and
- Long-term capital gains taxable at the applicable LTCG rate, without any special exemption on redemption.

This amendment shall take effect from 1st April 2026 and apply to tax year 2026-27 onwards.

Summary - Income From Capital Gains: SGB Exemption



Amendment to Section 70(1)(X) - Sovereign Gold Bond Exemption

Key Change: Capital gains tax exemption on redemption is now restricted to **original subscribers** who hold bonds until maturity.

- **Impact:** Withdraws exemption for secondary market purchasers to eliminate arbitrage opportunities.
- **Secondary Market Treatment:** SGBs purchased from the secondary market will be treated as regular capital assets.
 - **STCG:** Taxable at applicable slab rates.
 - **LTCG:** Taxable at applicable rates (no special exemption on redemption).

Redemption Conditions	Taxability
Original Issue Subscription + Held till Maturity	Exempt
Secondary Market Purchase + Held till Maturity	Taxable
Original Issue Subscription + Sold Before Maturity	Taxable
Secondary Market Purchase + Sold Before Maturity	Taxable

Income from Other Sources

No Deduction for Interest Against Dividend and Mutual Fund Income



Current Provision (ITA):

Taxpayers can deduct interest expenditure up to **20%** of dividend income under "Income from other sources".



Key Change:

This deduction **will no longer be allowed.**



Effective Date:

Discontinuation starts from the **2026-27 tax year** onwards.

Registered Non-Profit Organisations (NPO): Amendments

Merger of Registered NPOs

- **New Section 354A** ensures accreted tax under Section 352 is not triggered when NPOs with similar objects merge, subject to prescribed conditions.

Registration Relief

- Mandatory registration is now restricted to **Schedule VII (Sl. Nos. 17 to 19)**.
- Funds such as **PM National Relief Fund** and **PM CARES Fund** (Sl. Nos. 10 to 16) no longer require NPO registration to claim exemptions.

Commercial Activity & GPU

- **Finance Bill 2026** reclassifies GPU-related commercial breaches as 'other violations' under **Section 353**.
- NPO registration remains intact; only the exemption for the relevant tax year is denied via a special computation mechanism.

Belated Returns

- Amendment to **Section 349** permits registered NPOs to file a belated return (under Section 263(4)) within statutory timelines.
- NPOs can still claim their tax exemption even with a belated filing.

MAT Rationalized: Rate Reduced to 14% with New Credit Rules

15% → 14%

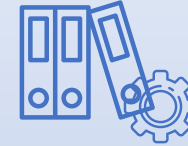


Rate Reduced:

The MAT rate is reduced from **15% to 14%** of book profits, providing relief to companies.

No New Credit:

MAT paid under the new regime is treated as a final tax; **no further MAT credit** will be accumulated.



Domestic Company Set-off:

Existing brought-forward MAT credit set-off is now **capped at 25%** of the year's tax liability.



Foreign Company Set-off:

MAT credit set-off for foreign companies is allowed only if **normal tax liability exceeds MAT** for that year.

TDS / TCS Provisions Clarified and Rationalized



TDS on Manpower Supply Clarified

- **Clarification:** Payments for manpower supply explicitly fall under **Section 194C (works contract)**.
- TDS Rates: **1% or 2%**, resolving ambiguity with professional services (Section 194J).



TCS Rate Changes

Nature of Receipt	Existing Rate	Proposed Rate
Sale of alcoholic liquor for human consumption	1%	2%
Sale of tendu leaves	5%	2%
Remittance under LRS for education/medical	5% (> ₹10L)	2% (> ₹10L)
Sale of overseas tour package	5% / 20%	2% (no threshold)

New Foreign Asset Disclosure Scheme Introduced

A one-time, six-month voluntary disclosure scheme is proposed for taxpayers to report previously undisclosed foreign assets and income.



Category A: Undisclosed Assets/Income

- Limit: Up to **₹1 crore**
- Action: Pay tax at **30%** of fair market value
- Benefit: Immunity from prosecution



Category B: Declared Income, Undisclosed Asset

- Limit: Asset value up to **₹5 crore**
- Action: Pay a flat fee of **₹1 lakh**
- Benefit: Immunity from penalty and prosecution

Tax Rates for the Tax year 2026-27

The Finance Bill, 2026 proposes no change in the income-tax rates, surcharge or cess for the Tax Year 2026-27.

The existing slab structures and rate provisions under the Income-tax Act, 2025 continue to apply across all categories of taxpayers.

Also, the new Income Tax Act 2025 will be applicable w.e.f 1st April 2026.

Due Dates for ITR Filing and Revision

Applicable from tax year 2025-26 onwards

ITR Type	Old Due Date (TY 2026)	New Due Date (TY 2026)
ITR 1 and ITR 2	31 July 2026	31 July 2026
Non-Audit Business Cases, Trusts & Partners	31 July 2026	31 August 2026
Audit Cases	31 October 2026	31 October 2026
Revised Filing Deadline	31 Dec 2026	31 March 2027

Due Date for Revision of ITR



Extended Time Limit

Filing period extended from 9 months (31st Dec) to 12 months (31st March).



Belated Return

The due date for filing a belated return remains unchanged at 31st December.



Fees

Extension is available with a nominal fee.

Updated Tax Returns: Filing After Reassessment & for Loss Reduction



i. Filing an Updated Return After Reassessment Notice

- **Existing Law:** Updated returns u/s 263(6) of IT Act 2025 can be filed within 48 months from the end of the relevant assessment year with additional tax.
- **Key Restrictions:** Not allowed if it's a return of loss, or if assessment/reassessment is pending or completed.
- **Proposed Amendment:** Updated returns can now be filed if:
 - (a) Loss is reduced.
 - (b) Reassessment notice is issued.
- **Additional Tax:** Filing in response to a reassessment notice requires an extra **10% tax** (in addition to the standard aggregate additional tax and interest).



ii. Filing an Updated Return in Case of Reduction of Losses

- **Background:** Section 263(6)(b) allows updated returns if a loss return is converted to an income return. However, Section 263(6)(c)(i) restricted filing if the final outcome remained a loss.



Proposed Change: Section 263(6) will be amended to allow updated returns even if the outcome is still a loss, provided the taxpayer seeks to **reduce the amount of loss** compared to the original claim filed under Section 263(1).

Assessment, Penalty & Prosecution

Assessment

A. Assessments not to be invalid on account of mistakes relating to the computer-generated DIN:

Section 522 of the ITA 2025 is proposed to be amended to clarify that assessments will not be invalid merely due to defects or omissions in quoting the DIN, so long as the assessment order is referenced by a valid DIN in any manner. Minor technical lapses (such as DIN not appearing on every page) will not invalidate proceedings, thereby curbing avoidable litigation. A corresponding amendment is also proposed in the ITA 1961 with retrospective effect from 1 October 2019.

B. Clarification on Jurisdiction to Reopen Assessments in the Era Of Faceless Proceedings:

A significant controversy arose after the decision of Hexaware Technologies Ltd. vs. Asst. CIT [2024] 162 taxmann.com 225 (Bombay) by the Bombay High Court, where the Court held that, in view of the Scheme notified under section 151A of the ITA 1961, notices under sections 148 and 148A were required to be issued in a faceless manner through automated allocation and, therefore, could not be issued by the Jurisdictional Assessing Officer (JAO). The Court reasoned that once the CBDT had framed a Scheme mandating automated allocation and faceless processes, there could be no concurrent jurisdiction between the JAO and the Faceless Assessing Officer (FAO/NaFAC) for issuing reassessment notices. This interpretation triggered widespread litigation across the country, placing the validity of thousands of reassessment notices issued by JAOs from 1 April 2021 onwards under serious challenge.

Assessment, Penalty & Prosecution

Assessment

The Memorandum to the Finance Bill, 2026 explains that the legislative intent was not correctly appreciated in such decisions. It explains that the reassessment mechanism under Section 147 operates in two distinct stages. The first stage is the pre-assessment enquiry, beginning with notice under section 148A and culminating in the issuance of notice under section 148. This stage is intended to be carried out by the Assessing Officer who forms the satisfaction regarding the escapement of income. The second stage commences after issuance of notice under section 148, where the actual reassessment is conducted in a faceless manner by the National Faceless Assessment Centre under section 144B. The faceless regime, therefore, was always intended to apply to the assessment proceedings and not to the jurisdictional act of initiating reassessment by issuing notice.

C. Clarifying the time limit for completing the assessment:

Section 275 of the ITA 2025 (corresponding to Section 144C of the ITA 1961) lays down a special assessment procedure for eligible assesseees, mainly in transfer pricing cases or where the assessee is a non-resident. The Assessing Officer is required to first issue a draft assessment order, which the assessee may accept or object to before the Dispute Resolution Panel (DRP). Specific timelines are prescribed for passing the final order, issuance of DRP directions, and completion of assessment, and these timelines apply notwithstanding Section 286 of the ITA 2025 (Sections 153/153B of the ITA 1961).

Assessment, Penalty & Prosecution

Assessment

Due to conflicting judicial views, including a split Supreme Court verdict, ambiguity existed on the applicability of the overall time limits under Sections 153/153B to the entire Section 144C process. To remove this uncertainty, it is proposed to amend Sections 153 and 153B to clarify that their timelines apply only up to the draft order stage, and all subsequent stages shall be governed solely by Section 144C timelines, notwithstanding any court judgment. Corresponding amendments are proposed in the ITA 2025, with retrospective effect from 1 April 2009 (Section 153) and 1 October 2009 (Section 153B).

D. Rationalisation of the block period in the case of other persons:

Section 295 of the ITA 2025 (corresponding to Section 158BD of the ITA 1961) provides that where the Assessing Officer is satisfied that undisclosed income belongs to a person other than the searched person, the relevant material shall be handed over to the Assessing Officer having jurisdiction over such other person, who shall then proceed under Section 294, applying the block assessment provisions in the same manner. Under the existing law, the block period is the same for both the searched person and the other person, even if the undisclosed income of the other person relates only to a single tax year, resulting in increased compliance burden.

To rationalise this, the Finance Bill, 2026 proposes to amend Section 295(2) to restrict the block period for the other person to the period to which the undisclosed income actually relates. Where the income pertains only to the year immediately preceding the search and the period up to the date of search, the block period shall be limited accordingly, and where it relates to only one of the preceding five years, the block period shall be confined to that year.

Assessment, Penalty & Prosecution

Assessment

E. Time limit to complete the block assessment:

Section 296 of the ITA 2025 (corresponding to Section 158BE of the ITA 1961) prescribes the time limit for completion of block assessments under Section 294. Under the existing provisions, the assessment or reassessment is required to be completed within 12 months from the end of the quarter in which the last authorisation for search was executed or requisition was made.

To address differing limitation periods in group search cases, it is proposed to amend Section 296 to compute the limitation period with reference to the date of initiation of search or requisition. Further, the time limit for completion of block assessment is proposed to be extended from 12 months to 18 months.

F. An extended time limit of 12 months applies to the draft assessment order:

Section 286(2) of the ITA 2025 (corresponding to Section 153 of the ITA 1961) provides that the time limit for completing an assessment or reassessment is extended by 12 months where a reference is made to the Transfer Pricing Officer for determining the arm's length price.

To remove ambiguity on the timeline for issuing the draft assessment order, it is proposed to amend Section 286 by retaining the existing provision under sub-section (2)(a) and adding a new sub-section (2)(b), specifying that the draft assessment order shall be issued within the time limit for completion of the assessment, including any extension under sub-section (2).

Assessment, Penalty & Prosecution

Penalty & Prosecution

A. Extension of Immunity to Cases of Misreporting of Income:

Section 440 of the ITA 2025 (corresponding to Section 270AA of the ITA 1961) grants immunity from penalty or prosecution for under-reporting of income, subject to payment of tax and interest and no appeal against the assessment. Currently, this immunity does not cover under-reporting due to misreporting.

It is proposed to extend immunity to cases of under-reporting due to misreporting, subject to payment of additional tax equal to 100% of the tax on such income in lieu of penalty instead of 200% as per old provision. Further, immunity is also proposed for cases previously covered under Section 443 (corresponding section 271AAC of the Act) relating to unexplained income, now incorporated under misreporting in Section 439(11), subject to paying 120% of the tax on such income.

Accordingly, the scope of immunity under section 270AA of the ITA 1961 has been expanded to cover under-reporting due to misreporting, with prescribed conditions and additional tax in lieu of penalty.

B. Penalty for non-furnishing or inaccurate crypto transaction reporting:

Section 509 of the ITA 2025 (corresponding to Section 285BAA of the ITA 1961 (i.e., Significant Transaction Reporting SFT) requires prescribed reporting entities to furnish statements containing information on crypto-asset transactions.

To ensure compliance, the Finance Bill 2026 proposes amending Section 446 of the ITA 2025 to levy a penalty of Rs. 200 per day for non-furnishing of the statement and Rs. 50,000 for providing inaccurate particulars or failure to correct such accuracy.

Assessment, Penalty & Prosecution

Penalty & Prosecution

C. Rationalisation of penalties into fees:

(a) Tax Audit Report (Form 3CA/3CB and 3CD):

The existing penalty under Section 446 of the ITA 2025 for failure to get accounts audited is proposed to be replaced with a fee under Section 428(c) — Rs. 75,000 for delays up to one month and Rs. 1,50,000 thereafter.

(b) Financial transactions/reportable accounts/Significant Financial Transactions (SFT) :

Section 454 of the ITA 2025 (corresponding to Section 271FA of the ITA, 1961) prescribes a penalty for failure to furnish a statement of financial transactions or a reportable account. Sub-section (1) of Section 454 provides for a penalty of Rs. 500 per day where such statement is not furnished within the due date, while sub-section (2) provides for a penalty of Rs. 1,000 per day where the statement is not furnished within the period specified in a notice issued under Section 508(7) of the ITA 2025 (corresponding to Section 285BA(5) of the ITA, 1961).

It is proposed to convert the penalty under Section 454(1) for failure to furnish the statement of financial transaction or reportable account into a fee under Section 427(3), and accordingly omit sub-section (1). Further, an upper cap of Rs. 1,00,000 is proposed to be introduced on the existing penalty of Rs. 1,000 per day under Section 454(2).

Assessment, Penalty & Prosecution

Penalty & Prosecution

C. Rationalisation of penalties into fees:

(c) Non-compliance with Section 254:

Section 466 of the ITA 2025 (corresponding to Section 272AA of the ITA 1961) states that a penalty is imposed if any person fails to provide information as required by the Income-tax authorities who enter a place of business to collect certain information under Section 254 of the ITA 2025 (corresponding to Section 133B of the ITA 1961). A penalty of Rs. 1,000 may be levied under this provision. It is proposed to increase the penalty from Rs. 1,000 to Rs. 25,000.

D. Integration of penalty proceedings with assessment orders:

Section 471 of the ITA 2025 (corresponding to Section 274 of the ITA 1961) provides procedural safeguards for imposing penalties. No penalty can be levied unless the assessee is given a reasonable opportunity to be heard, and prior approval from the Joint Commissioner is required when the penalty exceeds Rs. 10,000 in cases handled by an Income-tax Officer and Rs. 20,000 in cases managed by an Assistant or Deputy Commissioner. If a penalty order is issued by an authority other than the Assessing Officer, a copy must be sent to the Assessing Officer, ensuring due process and supervisory oversight. The Finance Bill, 2026, proposes that the opportunity to be heard will be provided through a show cause notice.

Assessment, Penalty & Prosecution

Penalty & Prosecution

D. Integration of penalty proceedings with assessment orders:

Sub-sections (4) and (5) are proposed to be inserted into Section 471 to change the imposition of penalties under Section 439 of the ITA 2025 (corresponding to Section 270A of the ITA 1961). For draft assessment orders under Section 275, assessments under Section 270, or reassessments under Section 279 made on or after 1 April 2027, any penalty under Section 439 will be incorporated into the draft or final assessment/reassessment order itself, and references to a separate penalty order will be deemed to refer to such order. Approval from the Joint Commissioner for passing the assessment or reassessment order will also be deemed to cover the penalty component.

E. No interest on penalty demand during the pendency of the appeal proceedings:

Under the existing provisions of Section 411(3) of the ITA 2025 (corresponding to Section 220(2) of the ITA 1961), interest is payable where the amount specified in a notice of demand issued under Section 289 of the ITA 2025 (corresponding to Section 156 of the ITA 1961) is not paid within the time specified in the notice, including when the demand arises from a penalty. The Finance Bill, 2026 proposes to substitute Section 411(3) to provide relief by specifying that no interest shall be charged on any demand arising from penalty levied under Section 439 of the ITA 2025 (corresponding to Section 270A of the ITA 1961) for under-reporting or misreporting of income during the pendency of appellate proceedings.

Assessment, Penalty & Prosecution

Penalty & Prosecution

E. No interest on penalty demand during the pendency of the appeal proceedings:

Accordingly, interest shall not be leviable on such penalty demand up to the date of the order passed by: (a) JCIT(A) or CIT(A) under Section 359 of the ITA 2025 (corresponding to Section 250 of the ITA 1961); or (b) Appellate Tribunal under Section 363 of the ITA 2025 (corresponding to Section 254 of the ITA 1961), where the assessment or reassessment is made pursuant to directions of the Dispute Resolution Panel under Section 275 of the ITA 2025 (corresponding to Section 144C of the ITA 1961). Consequential amendments are also proposed to Section 220 of the ITA 1961 by inserting a fourth proviso to Section 220.

F. Change in the time limit to pass the order by the TPO:

Section 166(7) of the ITA 2025 (corresponding to Section 92CA(3A) of the ITA 1961) mandates that the Transfer Pricing Officer (TPO) pass an order determining the arm's length price (ALP) at least 60 days before the expiry of the limitation period referred to in Section 286/296 (corresponding to Section 153/158BE of the ITA 1961). The Finance Bill, 2026 proposes to replace the existing 60-day time limit to simplify the language, avoid interpretational issues, and reduce litigation.

Assessment, Penalty & Prosecution

Penalty & Prosecution

F. Change in the time limit to pass the order by the TPO:

It is proposed that the TPO may pass an order at any time up to one month prior to the month in which the limitation period under Section 286 or Section 296 for making an assessment, reassessment, re-computation, or fresh assessment expires. Accordingly, where the limitation period expires on:

- (a) 31st March of any year, the order shall be passed on or before 31st January of that year; and
- (b) 31st December of any year, the order shall be passed on or before 31st October of that year.

G. Consolidation of provisions governing the optional tax regime for NRIs on foreign exchange assets:

The income of a Non-resident Indian (NRI) is normally taxable under provisions applicable to non-residents. Sections 212 to 218 of the ITA 2025 (corresponding to Sections 115C to 115-I of the ITA 1961) provide a special tax regime for income of NRIs arising from foreign exchange assets. NRIs may opt to be taxed under either the normal provisions or the optional special regime. Under Section 218 of the ITA 2025 (corresponding to Section 115-I of the ITA 1961), an NRI may choose the normal provisions by declaring in the return of income that the special regime shall not apply for the relevant year. Section 217 of the ITA 2025 (corresponding to Section 115H of the ITA 1961) allows an NRI who opts for the special regime to continue availing its benefits even after becoming resident, except in respect of income from shares of an Indian company. To simplify and rationalise these provisions, the Finance Bill, 2026 proposes to consolidate Sections 217 and 218 into a single Section 217, titled “Application of benefits under Sections 212 to 216”.

This is a structural consolidation, with no substantive change in the tax treatment or options available to NRIs.

Reduced Tax Rates on Unexplained Cash, Credits



Tax Rate & Effective Rate Changes

Current Taxation

Unexplained credits, investments, etc. taxed at **60% + 10% penalty.**

➔ **Effective Rate: 78%**

Proposed Taxation

Tax reduced from **60% to 30%.**

➔ **Effective Rate: 39%** (incl. surcharge & cess).



Penalty Realignment & Effective Date



Penalty Realignment:

- Separate 10% penalty **omitted.**
- Potential penalty increased to **200%** (aligned with misreporting penalty).
- **Immunity:** Pay **120% of tax payable.**



Effective Date:

- Amendments apply from **Tax Year 2026-27** onwards.

Changes in Securities Transaction Tax (STT)

STT Rate Increase

Effective April 1, 2026, Securities Transaction Tax (STT) rates on derivative transactions are increased.

Nature of Transaction	Existing Rate	Proposed Rate
Sale of option (on premium)	0.10%	0.15%
Sale of option on exercise (intrinsic value)	0.125%	0.15%
Sale of futures (traded price)	0.02%	0.05%

Indirect Tax (GST) Amendments

Post-Sale Discounts Aligned with Commercial Reality

Before Amendment (The Gap)



Mandatory Agreement: Required before or at the time of supply.



Commercial Disconnect: Year-end volume discounts and post-supply adjustments were not recognized.



Financial Strain: Suppliers paid GST on unrealized amounts, leading to cash flow losses.

After Amendment (The Solution)



Flexibility: No pre-existing agreement required for tax adjustments.



Simplified Process: Permitted via valid credit notes and recipient ITC reversal.



Business Impact: Tax is levied only on consideration actually received, improving working capital.



Key Takeaway: Law now aligns with business practices, reducing litigation and improving cash flow.

Intermediary Services to Foreign Principals: Treated as Exports

The Problem: Destination Principle Conflict

- Previously, Section 13(8)(b) of the IGST Act deemed the place of supply for intermediary services as the location of the supplier (India). This prevented these services from being classified as exports, even when the recipient was abroad.

The Solution: Legislative Amendment

- ✓ Deletion: Section 13(8)(b) is proposed to be deleted.
- General Rule: The place of supply will now be the location of the recipient.
- Impact: When the recipient is outside India, the service qualifies as a zero-rated export.

Key Benefits for Indian Providers



Providers now eligible for Input Tax Credit (ITC) refunds.



Enhanced competitive edge for Indian intermediary service providers on a global scale.

Refund Process Streamlined to Improve Cash Flow

Provisional Refunds for Inverted Duty Structure

- **Context:** Inverted Duty Structure occurs when input tax rates are higher than output tax rates, causing ITC accumulation.
- **Key Change:** **90% provisional refund** benefit now extended to **inverted duty structure** claims.
- **Impact:** Significantly eases working capital blockage for manufacturers.

Minimum Threshold for Export Refunds Removed

- **Old Rule:** Refund claims under ₹1,000 for exports (with GST payment) were not processed.
- **Key Change:** The ₹1,000 minimum threshold is now **eliminated**.
- **Impact:** Immediate refund processing for SME exporters, regardless of the amount.



Changes in International Taxation

International Financial Services Centre (IFSC): Incentives

Extension in Tax Holiday & Rationalization of Tax Rate

Particulars	Earlier Provisions	Proposed Amendments
Offshore Banking Units (OBUs)	100% tax deduction for 10 consecutive years	100% tax deduction for 20 consecutive years
Other IFSC Units	100% tax deduction for 10 years out of 15 years	100% tax deduction for 20 years out of 25 years
Tax rate after tax holiday period	Applicable normal tax rates	Concessional tax rate of 15% on eligible income
Eligibility condition for tax holiday	General conditions	Unit set up after 1 April 2026 ; No splitting/reconstruction/transfer of existing Indian business

Implications for the proposed amendments



- These amendments are significant, long-term tax reforms for units in IFSC and are aimed at enhancing its competitiveness as a global corporate treasury and financial hub. The tax holiday for IFSC units and Offshore Banking Units (OBUs) is extended to 20 consecutive years out of a 25-year block, a major increase from the previous 10-year benefit. This change provides long-term tax certainty for treasury operations and financial institutions planning long-term investments.

Deemed Dividend Exemption for IFSC Treasury Centres Rationalized

- Amendments to prevent misuse of the exemption on loans and advances to group entities.

Rationalization

- **Objective:** To ensure the deemed dividend exemption for loans from an IFSC treasury centre is only used for genuine offshore transactions.
- **New Condition 1 (Location of Counterparty):** The exemption will now apply only if the counterparty group entity receiving the loan or advance is also located in a country or territory **outside India**.
- **New Condition 2 (Government Notification):** The foreign jurisdiction of both the counterparty entity and the ultimate parent entity must be **notified by the central government**.
- **New Definitions:** The terms '**group entity**' and '**parent entity**'/'**principal entity**' have now been formally defined in the Act to provide clarity.

IFSC Deemed Dividend: Tightening Rules & Broadening Definitions

A closer look at the new requirements and expanded definition of a 'parent entity'.

Conditions for Exemption:



1. IFSC Corporate Treasury Centre: The loan or advance must be transacted by such a centre.



2. Notified Foreign Jurisdiction: The counterparty group entity must be located in one.



3. Listed on Foreign Stock Exchange: The parent or principal entity of the group must be listed.

Broadened Definition of 'Parent Entity':

To prevent circumvention, the definition now includes an entity that controls:



- **Voting Power:** More than **50%**, either on its own or together with its subsidiaries.



- **Board Composition:** Direct control over the composition of the Board of Directors.

Transfer Pricing Provisions relating to IT Industry overhauled

- Clubbing of services under a single category of IT services (IT sector services categorised into four distinct groups: software development services, IT enabled services, knowledge process outsourcing, and contract R&D services related to software development) with a common Safe Harbour margin of 15.5%.
- Increasing Safe Harbour thresholds from Rs. 300 crores to Rs. 2,000 crores.
- Safe harbour for IT services shall be approved by an automated rule-driven process without any need for tax officer to examine and accept the application. Once applied by an IT Services company, the same safe harbour can be continued for a period of 5 years at a stretch at its choice.
- For Data centre services a Safe Harbour of 15% on cost for an Indian captive data centre service provider.



Transfer Pricing: Compliance Framework Changes



Fee-Based Compliance Framework

Proposal: Convert the fixed penalty (Rs. 100,000) for failure to furnish Form 3CEB into a **mandatory graded fee**.

Scenario	Revised Fee
Delay of up to one month	Rs. 50,000
Delay beyond one month	Rs. 100,000



Specified Domestic Transactions (SDT)

- **Exclusion:** Transactions with newly established SEZ units are proposed to be excluded from the scope of SDT.
- **Restriction:** No deduction allowed for transactions connected with newly established SEZ units for income enhanced after ALP computation.

Effective Date: 1st April 2026 (Tax Year 2026–27 onwards).

Modified Returns for APAs Extended

Amendment to Section 169, ITA, 2025: Facilitating Ease of Doing Business

Aspect	Existing Provision (Pre-Amendment)	Proposed Amendment (Finance Bill, 2026)
Eligible Entity	Only the person who entered into the APA with the Board.	Extended to any person modified by APA, specifically Associated Enterprises (AEs) .
Filing Modified Return	AEs were not permitted to file a modified return to align tax position.	AEs can now furnish a modified return in accordance with APA terms.
Timeline	N/A	Must be filed within three months from the end of the month of APA signing.
Applicability	N/A	Applies to APAs entered into on or after April 1, 2026 .

APA Amendment: Implications & Enhanced Ease of Doing Business

The amendment addresses key regulatory gaps and is aimed at reducing litigation.



Addresses Regulatory Gap

Corrects a significant gap where AEs' tax liabilities were altered by an APA but they had no mechanism to formally align their tax returns.



Enables Refunds for AEs

Associated Enterprises can now claim refunds for excess tax paid or TDS, specifically beneficial for royalty and technical service fees.



Reduces Litigation & Disputes

Expected to reduce litigation by allowing AEs to file modified returns, aligning tax positions between related parties.



Expedited APA Processing

The Budget aims to speed up unilateral APAs, providing greater tax certainty for multinational companies, particularly in the IT sector.

Summary - Transfer Pricing: IT Industry Overhaul & APA Reforms

A. Transfer Pricing Overhaul for IT Industry



- **Consolidated IT Services:** Services clubbed under a single category with a **15.5% common Safe Harbour margin**.
- **Threshold Increase:** Safe Harbour thresholds raised from **Rs. 300 crores to Rs. 2,000 crores**.
- **Automated Approval:** Rule-driven process replaces tax officer examination; once approved, valid for **5 years**.
- **Data Centres:** Indian captive data centre service providers get a **15% Safe Harbour** on cost.

B. Advance Pricing Agreement (APA) Reforms



- **Return Filing:** Persons with income modified by APA (and associated enterprises) can file modified returns strictly per APA terms.
- **Timeline:** Returns must be filed within **three months** from the end of the month the APA is entered.
- **Applicability:** For APAs entered on/after April 1, 2026, provisions apply from the **2026-27 tax year**.

FEMA measures as announced by the Hon'ble Finance Minister in her speech

- Comprehensive review of the Foreign Exchange Management (Non-debt Instruments) Rules is proposed to create a more contemporary, user-friendly framework for foreign investments, consistent with India's evolving economic priorities.
- Individual Persons Resident Outside India (PROI) will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme (PIS). Presently, foreign resident individuals are not permitted to invest in listed shares unless they are NRIs / OCIs or are registered as FPI – Category II.
- It is also proposed to increase the investment limit for an individual PROI under this scheme from 5% to 10%, with an overall investment limit for all individual PROIs to 24%, from the current 10%.
- It may be noted that the above measures would be operationalized by way of relevant Notifications under FEMA which are not yet issued.

Thank You

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