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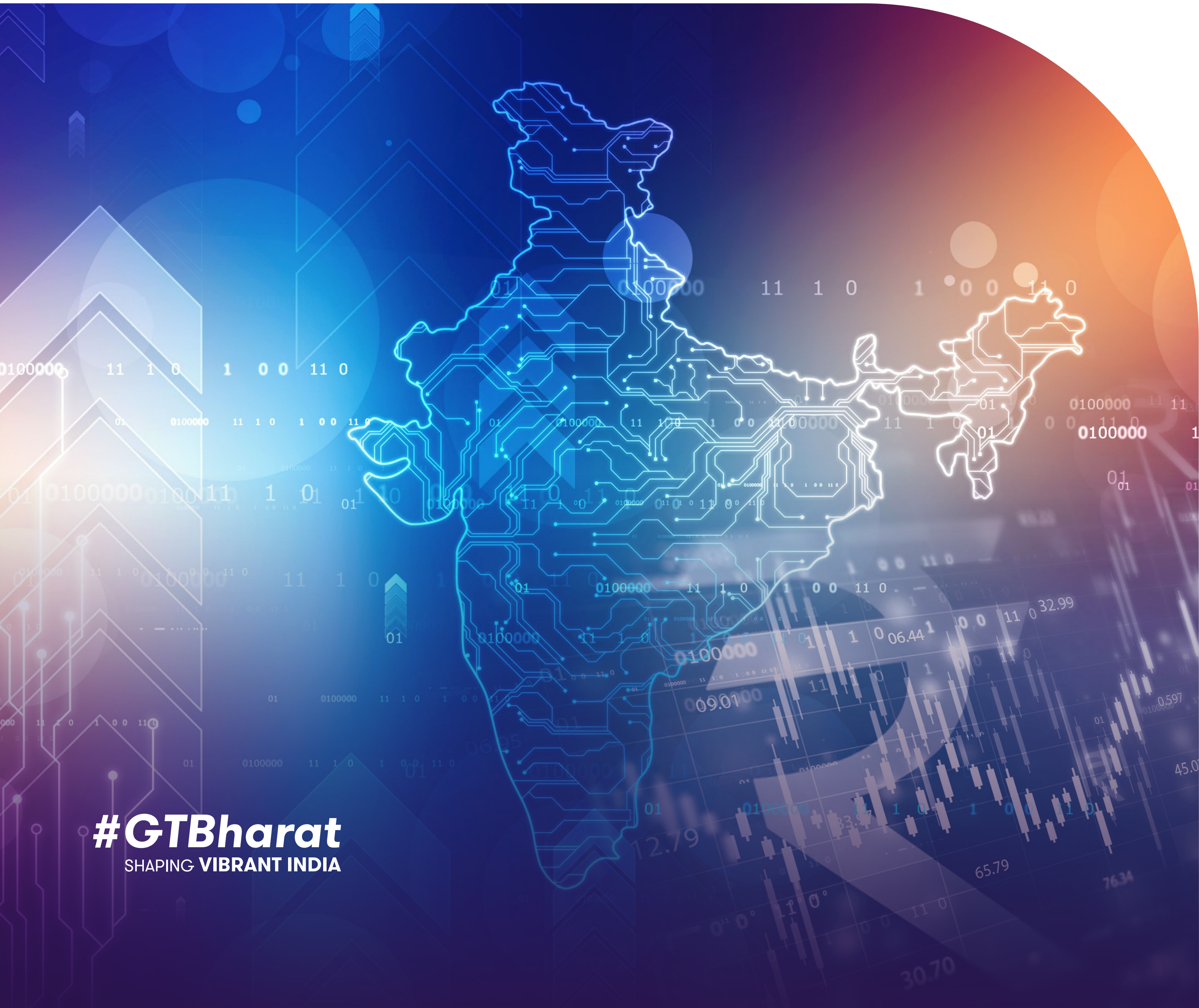
UNION BUDGET 2026

Union Budget 2026

Decoding tax announcements

2 February 2026



The Union Budget 2026 marks a clear shift from criminalisation to a compliance-oriented tax regime by decriminalising minor tax offences and replacing them with fines. It also proposes a one-time disclosure window for foreign non-immovable assets, offering immunity from prosecution for non-disclosures below INR 20 lakh.

By proposing to shorten the timelines for concluding advance pricing agreements, extend the period for filing revised returns on payment of a nominal fee, and allow updated returns even after a reassessment is triggered with calibrated additional tax, the Budget is heralding a shift from adversarial enforcement to voluntary compliance. Safe harbour provisions have also been introduced for the information technology industry. Taken together, these measures are designed to resolve disputes early, reduce avoidable litigation, and provide taxpayers with greater certainty without prolonged proceedings.

Further, the proposals for Customs and Central Excise aim to simplify the tariff structure, support domestic manufacturing, promote export competitiveness, and correct inversion in duty.

Individual taxation

Tax exemption on Sovereign Gold Bonds:

- Uniform application of the exemption across all issuances of Sovereign Gold Bonds issued by the Reserve Bank of India.
- Exemption shall be available only where the Sovereign Gold Bond is subscribed to by an Individual subscriber at the time of original issue and is held continuously until redemption on maturity.

Introduction of Foreign Assets of Small Taxpayers – Disclosure Scheme (FAST – DS), 2026

- The one-time six-month Foreign Asset Disclosure Scheme for small taxpayers, along with immunity from prosecution, has been proposed, effective from a date to be notified.

Particulars	Threshold	Impact
Undisclosed income or assets	INR 1 crore	30% of income or 30% of assets + 100% penalty
Disclosed income and undisclosed assets	INR 5 crore	Fixed fee of INR 1 lakh

Corporate taxation

Rationalisation of buy-back tax for non-promoter shareholders:

- Consideration received on buy-back shall be chargeable to tax under the head “Capital gains” instead of being treated as dividend income.
- However, in the case of promoters, the tax rate shall be as follows:
  - 22% in case of domestic promoter companies; and
  - 30% in case of promoters other than domestic companies.
- “Promoter” of a listed company will be as defined in SEBI (Buy-Back of Securities) Regulations, 2018, and in case of an unlisted company, a person holding, directly or indirectly, more than 10% of shareholding or defined as “promoter” in the Companies Act, 2013.

Rationalisation of MAT provisions

- **Significant changes in MAT:**
  - Under the old regime:
    - A final tax rate of MAT is proposed at 14% without carry forward of such MAT from tax year 2026-27;
    - Accumulated MAT credit up to 31 March 2026 will not be allowed for set-off unless the taxpayer shifts to the new tax regime.

- Under the new regime:
    - Carry forward or set-off of MAT credit available as on 31 March 2026;
    - MAT credit can be set off to the extent of 25% of the total tax liability for that year, subject to a 15-year threshold.
- For foreign companies, the set-off of MAT credit is allowed to the extent of the difference between the tax on total income and MAT.
- Exemption from MAT is now proposed to be extended to non-residents opting for presumptive taxation in the business of cruise ships or providing services/technology in India for setting up an electronics manufacturing facility.

Rationalising the due date for payment of employee's contributions to welfare funds:

- Claim for deduction of employee's contributions to welfare funds is proposed to be allowed if paid within the due date for filing the return of income.

Exemption for foreign companies:

- Notified foreign companies are proposed to be exempted in respect of income arising from the supply of capital goods, equipment, or tooling to Indian contract manufacturers located in a custom bonded area and producing electronic goods on behalf of a foreign company. This exemption is proposed up to tax year 2030-31.
- Foreign companies are proposed to be exempted from income tax on income from providing cloud services globally when procuring services from Indian data centres. Cloud service users located in India should be provided through an Indian reseller entity. This exemption is proposed to remain in effect until tax year 2046-47.

Removal of deductions available against dividend income

- It is proposed that no deduction shall be allowed in respect of dividend income.

Financial services

Tax benefits for units in IFSC

- It is proposed to extend the period of 100% tax deduction from 10 consecutive years out of 15 years to 20 consecutive years out of 25 years, beginning with the tax year in which the requisite approval was obtained. The extended tax deduction period is proposed to apply to both existing and new units in an IFSC.
- For an IFSC unit commencing operations on or after 1 April 2026, the deduction will be available only if the prescribed conditions are met.
- A concessional tax rate of 15% is proposed for income earned by units in an IFSC from approved business activities after the end of the prescribed period.

Amendments for GRTC in IFSC

- Presently, deemed dividend provisions do not apply to advance or loan transactions between two group entities, if:
  - One of the group entities is a finance company/finance unit in an IFSC set up as a GRTC, and
  - The parent entity/principal entity of such group is listed on a stock exchange outside India.
- It is now proposed that, in addition to the above conditions, the other group entity dealing with the IFSC unit should be located outside India, in a country or territory notified by the central government. A similar requirement of being from a notified jurisdiction shall also apply to the parent/principal entity.

Deduction for non-life insurers where TDS not deducted

- The expenditure incurred by a non-life insurance business on which tax is not deducted or paid will be allowed in the year in which such tax is actually deducted and paid.

TDS and TCS

Rationalisation of TCS rates

Sr. No.	Description	Present rate	Proposed rate
1	Sale of alcoholic liquor for human consumption	1%	2%
2	Sale of tendu leaves	5%	2%
3	Sale of scrap	1%	2%
4	Sale of minerals, such as coal, lignite, or iron ore	1%	2%
5	Remittances made under LRS of an amount exceeding INR 10 lakh for purposes of education or medical treatment	5%	2%
6	Sale of an "overseas tour programme package", including expenses for travel, or hotel stay, or boarding, or lodging, or any such similar or related expenditure in –		
	(a) Aggregate of amounts up to INR 10 lakh	5%	2%
	(b) Aggregate of amounts exceeding INR 10 lakh	20%	2%

Relaxation from TAN requirement for resident individuals and HUFs

- It is proposed to exempt a resident individual or a HUF from the requirement to obtain a TAN for depositing TDS on the payment of consideration for the purchase of immovable property from a non-resident seller.
- The change is proposed to come into effect from 1 October 2026.

TDS on supply of manpower

- The supply of manpower is proposed to be included within the scope of "work" for the purpose of TDS. This reduces ambiguity about the nature of the payment.

Penalties and procedural matters

Rationalisation of 'penalties' into 'fee'

With an intent to reduce litigation for technical faults, it is proposed to rationalise penalties to fees. The relevant amendments are discussed below:

Description	Present (penalty)	Proposed amendment (fees)
Failure to furnish statement of SFT within the due date	INR 500 per day of delay	INR 200 per day (subject to a maximum of INR 1,00,000)
Failure to get accounts audited (Tax audit)	Lesser of: • 0.5% of total sales, turnover, or gross receipts from business and profession; or • INR 1,50,000	• For delay of up to 1 month - INR 75,000 • Thereafter - INR 1,50,000
Failure to furnish the Accountants report (Transfer pricing)	INR 1,00,000	• For delay of up to 1 month - INR 50,000 • Thereafter - INR 1,00,000

Rationalisation of prosecution proceedings

Prosecution proceedings in several cases are proposed to be rationalised under the decriminalisation framework, with punishments for offences proportionate to the crimes. The following principles are followed in the proposed decriminalisation exercise:

- The nature of punishment is proposed to be changed from rigorous imprisonment to simple imprisonment.
- The maximum punishment is proposed to be limited to two years (three years for subsequent offences), down from seven years.
- Punishment of only a fine is proposed to be prescribed where the tax evaded does not exceed INR 10 lakh.

- Certain offences are proposed for full decriminalisation.

  The above amendments are proposed to be made under the 1961 Act and in the corresponding sections of the 2025 Act.

Rationalisation of the definition of misreporting of income and immunity from penalty to include cases of misreporting of income

- It is proposed to expand the definition of misreporting of income under the 2025 Act to include income in the nature of unexplained credits/investments/assets/expenditure, and amounts borrowed or repaid through negotiable instruments, hundis, etc.
- It is proposed to allow taxpayers to apply for immunity from the imposition of a penalty for misreporting of income (excluding cases involving criminal offences and prosecution), as well as for under-reporting of income, subject to prescribed conditions.
- The amendments will be effective from 1 April 2026 for the 2025 Act and from 1 March 2026 for the 1961 Act.

Other amendments in penalty provisions

- It is proposed to introduce a new penalty for failure to furnish information on transactions involving crypto-assets, furnishing inaccurate information, failure to remove such inaccuracy, or failure to comply with due diligence requirements.

Assessment proceedings

Merger of assessment and penalty proceedings

- It is proposed to issue a single consolidated order covering both assessment and penalty in order to eliminate multiplicity of proceedings.
- This will be applicable from 1 April 2027.

Affirming time limit for completion of assessment in DRP cases

- It is proposed that in cases where objections are filed before the DRP, the time limit for completion of the assessment shall be one month from the end of the month in which the DRP directions are received by the AO.
- The proposed amendments to the 1961 Act are applicable retrospectively from 1 April 2009/1 October 2009 as may be applicable. The 2025 Act is proposed to be amended from 1 April 2026.

Issue of notice in cases of income escaping assessment, and for carrying out pre-assessment procedure

- It is clarified that, for the purposes of issuing notices for income-escaping assessment and for carrying out a pre-assessment procedure, the “Assessing Officer” shall not include the National Faceless Assessment Centre or any assessment unit, retrospectively from 1 April 2021 under the 1961 Act and from 1 April 2026 under the 2025 Act.

Transfer pricing

SHR provisions

Rationalisation for the IT sector

<table>
<tr><th>Particulars</th><th>Existing provisions</th><th>Proposed amendments</th></tr>
<tr><td>SDS and IT/ITeS</td><td>17% up to INR 100 crore
18% from INR 100 crore to INR 300 crore</td><td rowspan="3">Clubbed under a single category, i.e., IT services, with a common operating profit margin of 15.50%
The threshold being increased to INR 2,000 crore.</td></tr>
<tr><td>KPO services</td><td>18%/21%/24% depending upon the proportion of employee cost to operating expenses</td></tr>
<tr><td>Contract R&D SD services</td><td>24%</td></tr>
</table>

- Safe harbour for IT services will be granted through an automated, rule-driven approval process, eliminating the need for examination or acceptance by a tax officer.
- Eligible IT service providers may opt for the SHR for a period of five years.

Data centre services

- An operating profit margin under SHR is proposed at 15% on cost.

Electronic component warehousing by non-residents

- A safe harbour profit margin of 2% of the invoice value is proposed.

Accelerated UAPAs timelines for IT sector

- A fast-track UAPA conclusion is proposed for taxpayers in the IT sector within two years (with a six-month extension available on the taxpayer's request).

Extending modified returns to AEs pursuant to APA

- Pursuant to an APA concluded by a taxpayer in India, AEs will now be eligible to file modified returns to enable claiming a refund of any additional taxes paid or withheld.

Clarification on timelines for TPO order

- A clarification with respect to the computation of 60 days before the limitation period for the due date of the TPO order has been provided as follows:

Limitation period expiry on	Last date for TPO's order
31 March (not being a leap year)	30 January
1 March (being a leap year)	31 January
31 December	1 November

Miscellaneous

Extension of time limit for filing revised return

- It is proposed to extend the time limit for filing a revised return from nine months to twelve months from the end of the relevant tax year. In such a case, it is proposed to levy a fee of INR 1,000 where the total income does not exceed INR 5 lakh, and INR 5,000 in all other cases.
- The proposed change in the 2025 Act will apply from 1 April 2026 and will apply from the tax year 2026-27. Corresponding amendments are also proposed under the 1961 Act from 1 March 2026 for the tax year 2025-26.

Interest on motor accident compensation

- It is proposed to exempt the interest on compensation awarded by the Tribunal to an individual or that person's legal heir under the Motor Vehicles Act, 1988. Furthermore, no tax is required to be deducted on such interest on compensation.

Tax exemption to non-resident individuals for income accruing/arising outside India

- It is proposed to exempt the income, accruing/arising outside India, for non-resident individuals visiting India to render services in connection with any notified scheme, for a period of five years.
- This will cover individuals who qualify as non-residents for a period of five consecutive tax years immediately preceding the year in which they first visit India to render services.

Changes in due date of filing tax returns -

- A change in the due date for filing the original income tax return in cases where tax audit and transfer pricing are not applicable:
  - It is proposed to extend the due date for filing the tax return from 31 July to 31 August for taxpayers with income from business or profession, and who are not liable to tax audit or transfer pricing audit.
  - Therefore, the due date of 31 July for filing the tax return would only apply to individuals/HUFs not liable for tax audit.
  - The amendments will be effective from 1 March 2026 in the case of the 1961 Act and from 1 April 2026 in the case of the 2025 Act.

- Change in timelines for filing the revised return of income:
- Change in conditions of filing the updated return of income:
  - It is proposed that a taxpayer can also file an updated return in the following cases:
    - Reduction of losses.
    - In response to a reassessment notice, as per the timelines prescribed in the notice, subject to a payment of an additional 10% of tax and interest.
  - Further, it is proposed that no penalty for misreporting or under-reporting of income shall be levied on income disclosed through an updated return filed in response to a reassessment notice.
  - The above-mentioned amendments are proposed from 1 March 2026 under the 1961 Act and similar amendments from 1 April 2026 under the 2025 Act.

GST[1]

Place of supply for intermediary services

- Section 13(8) of the IGST Act, which currently determines the place of supply for intermediary services as the “location of the supplier,” is proposed to be omitted.
- Following this change, the place of supply for intermediary services shall be governed by the default rule, which treats the “location of the recipient” as the place of supply.

Valuation and credit note requirement in case of post-sale discounts

- A proposed amendment to Section 15(3) of the CGST Act would do away with the requirement to link post-sale discounts to a specific agreement and relevant invoices.
- While providing post-sale discounts, suppliers shall be required to issue a credit note, and recipients would be required to reverse the corresponding ITC attributable to such discounts.
- A specific amendment has been proposed to the credit note provisions under Section 34 to enable the issuance of credit notes for discounts.

Provisional refund for Inverted Duty refund applications

- An amendment has been proposed to Section 54(6) of the CGST Act to extend the 90% provisional refund benefit to applications under the Inverted Duty structure.

Removal of threshold limit for refunds

- Withdrawal of the existing threshold limit of INR 1,000 for sanctioning refund claims in case of refund application pertaining to the export of goods with the payment of tax.

[1] All proposals to be affected from date of notification as may be notified.

Interim authority in lieu of National Appellate Authority for Advance Rulings

- The GST law provides for the constitution of a National Appellate Authority for Advance Rulings to hear appeals against conflicting advance rulings issued by the appellate authorities of two or more states.
- Section 101A(1A) has been proposed to empower an existing authority, including a tribunal, to hear appeals till such time the National Appellate Authority is constituted. This will come into effect from **1 April 2026.**

Customs

Extension in validity of advance rulings

- Section 28J has been proposed for amendment to extend the validity of advance rulings from 3 years to 5 years.
- All valid advance rulings in force on the date the Finance Bill, 2026, receives Presidential assent will be eligible for a one-time extension of five years from the date of the original ruling.

Deeming penalty as charge for non-payment of duty

- Section 28(6) has been proposed to be amended to clarify that the penalty paid under Section 28(5) will be treated as a charge for non-payment of duty, rather than a penalty.

Removal of prior permission requirement in case of inter-warehouse transfers

- Section 67 has been proposed to be substituted to do away with the earlier requirement of obtaining prior permission from the proper officer for inter-warehouse movement.
- The owner of warehouse goods may transfer such goods from one warehouse to another in accordance with the prescribed conditions.

Extension of jurisdiction beyond territorial waters

- The Customs Act has been proposed for amendment to extend jurisdiction beyond India's territorial waters for fishing and related activities.
- This creates statutory jurisdiction to levy, regulate, and enforce customs provisions in respect of fishing activities conducted beyond territorial waters.

Special provisions for fishing and fishing-related activities

- A new Section 56A has been proposed to be inserted to allow duty-free import of fish harvested beyond India’s territorial waters by an Indian-flagged fishing vessel. The fish landed at a foreign port will be treated as an export of goods.
- Regulatory powers granted to the Board to prescribe the form and manner of entry and procedures.
- Definition inserted [Section 2(ah)] for “Indian-flagged fishing vessel” as a vessel registered in India and flying the Indian flag.

Regulations for custody of postal/courier goods

- An amendment has been proposed to Section 84(b) to empower the Board to frame regulations governing the custody of goods imported or intended for export by post or courier.
- This amendment expands the scope of the delegated regulatory powers by expressly bringing the custody of postal and courier consignments within the regulatory framework, alongside their examination and clearance.

Changes related to baggage rules

- The Baggage Rules, 2016, are superseded by the Baggage Rules, 2026, to simplify and consolidate all earlier clarifications with the objective of simplifying procedures, enhancing passenger facilitation, ensuring transparency, enabling electronic and advance declarations, and the smooth clearance of passenger baggage.
- The transfer of residence benefits has been rationalised and restructured distinctly for Indian residents and foreign professionals, with eligibility criteria aligned to the duration of stay.
- The Rules will come into force at midnight on **2 February 2026.**

Sector-wise rate changes

Healthcare/pharma sector

- Duty exemption extended on 17 life-saving drugs.
- Seven rare diseases have been added to the list of eligible conditions for duty-free personal imports.
- Exemptions on pharma standards, ELISA inputs, implants, and medical equipment extended till 31 March 2028.

Solar sector

- Solar manufacturing inputs, such as sodium antimonate used to make solar glass, are now reduced from 7.5% to NIL.

Automobile sector

- Capital-goods exemption for lithium-ion cell manufacturing extended to Battery Energy Storage Systems (BESS).
- Exemptions for lithium-ion cells, parts, separators, and key raw materials are to be continued until 31 March 2028.

Chemical sector

- The basic customs duty has been increased on certain chemical items, including ammonium phosphate, potassium hydroxide, and naphtha.

Banking sector

- Exemption withdrawn on cash dispensers or automatic banknote dispensers and their parts and components.

- Exemption on parts and components for use in the manufacture of goods such as micro ATMs, fingerprint readers/scanners, iris scanners, and miniaturised POS card readers extended till 31 March 2028.

Electronics sector

- Customs duty exemption withdrawn for television and film-shooting equipment imported by foreign film units or television teams.
- The withdrawal also applies to foreign-origin photographic, filming, and sound-recording equipment brought into India.
- In addition, parts and components of digital still image and video cameras, when re-imported into India after export, will no longer be eligible for exemption.
- Exemption introduced on specified goods for use in the manufacture of microwave ovens.

Special economic zone

DTA sale concession for SEZ manufacturing units

- Considering the capacity underutilisation faced by manufacturing units in SEZs due to global trade disruptions, a one-time measure has been announced to allow these units to sell their products in a DTA at concessional customs duty. This relaxation will be subject to a proportion of export turnover.
- Necessary regulatory amendments are yet to be announced to operationalise this measure, while ensuring a level playing field for units operating in the DTA.

Withdrawal of customs duty exemptions for SEZ units for specific products

- Effective 31 March 2026, the conditional customs exemption (45/2025-Cus) for LPG sent by an SEZ unit to a DTA unit for processing and returned to the SEZ in excess of the prescribed quantity for the manufacture of polyisobutylene will lapse.
- The customs exemption for castor oil cake and castor de-oiled cake manufactured by SEZ units using indigenous seeds and machinery and supplied to a DTA under Notification No. 113/2003-Customs is set to expire on 31 March 2026.

Continuation of certain exemptions

- The customs exemption on electrical energy supplied to DTA by SEZ power plants with capacities≥1000 MW and <1000 MW, approved before 19 July 2012, has been proposed to be extended from 31 March 2026 to 31 March 2028.

Erstwhile tax law

Central Excise (w.e.f. 1 May 2026)

- The NCCD schedule has been proposed for amendment to revise the rates on chewing tobacco, *jarda* scented tobacco, and other tobacco products from 25% to 60%. However, the effective rate will remain unchanged.

Glossary

AO	Assessing Officer	LRS	Liberalised Remittance Scheme
APA	Advance Pricing Agreement	MAT	Minimum Alternate Tax
CNG	Compressed Natural Gas	NCCD	National Calamity Contingent Duty
CBG	Compressed Bio Gas	NPO	Non-Profit Organisation
Contract R&D SD services	Contract research & development services wholly or partly relating to software development	SDS	Software Development Services
DTA	Domestic Tariff Area	SEZ	Special Economic Zone
FAST-DS	Foreign Assets of Small Taxpayers – Disclosure Scheme	SHR	Safe Harbour
GRTC	Global or Regional Corporate Treasury Centres	TCS	Tax Collected at Source
GST	Goods and Services Tax	TDS	Tax Deducted at Source
IFSC	International Financial Service Centre	TPO	Transfer Pricing Officer
INR	Indian Rupee	UAPA	Unilateral Advance Pricing Agreement
ITC	Input Tax Credit	2025 Act	Income Tax Act, 2025
IT/ITeS	Information Technology/information Technology enabled services	1961 Act	Income-tax Act, 1961
KPO	Knowledge Process Outsourcing		

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