

ERGO



# Union Budget 2026

DIRECT TAX PROPOSALS





## Tax Rates

No changes have been proposed in the Finance Bill, 2026 (Bill) on the personal and corporate income tax rates.

### Rates for Companies and Firms

Base tax rates for companies and firms under the Income-tax Act, 2025 (ITA 2025) and the Income-tax Act, 1961 (ITA 1961) are listed below for ready reference:

- **Domestic Companies:** 15%/22%/25%/30%, depending on nature of business, commencement of operations, turnover thresholds, and tax regime opted etc.
- **Foreign Companies:** 35%
- **Partnership and LLPs:** 30%

Applicable surcharge on base rates and 4% cess on the aggregate of tax and surcharge, too, remain unchanged for these entities. Amendments relating to Minimum Alternate Tax (MAT) applicable to companies are discussed subsequently.

### Rates for Individuals, HUFs

There is no change in the tax rates in either the 'old regime' or the 'new regime'. The slab rates for individual and non-corporate entities under the default 'new regime' have been reproduced below:

Sl. No.	Total Income (INR)	Rate of Tax
1.	Up to 400,000	NIL
2.	From 400,001 to 800,000	5%
3.	From 800,001 to 1,200,000	10%
4.	From 1,200,001 to 1,600,000	15%
5.	From 1,600,001 to 2,000,000	20%
6.	From 2,000,001 to 2,400,000	25%
7.	Above 2,400,000	30%

In addition, (i) surcharge (in the range of 0% to 37%) applies on the base tax, and (ii) 4% cess applies on the aggregate of tax and surcharge.

### Increase in Securities Transactions Tax

The Bill has proposed to increase the Securities Transactions Tax (STT) as under:

1. STT on Futures: Proposed increase to 0.05% (from 0.02%)
2. STT on Options Premium: Proposed increase to 0.15% (from 0.10%)





### 3. STT on exercise of Options: Proposed increase to 0.15% (from 0.125%)

The amendment is proposed to be applicable on transactions in options and futures entered into on or after 1 April 2026.

## International Tax | A Gateway to New Opportunities

### Boost to data centre framework in India

The Bill proposes to provide a tax exemption till Tax Year (TY) 2046-47 to foreign companies on any income accruing or arising in India as a result of procuring data centre services from specified data centres owned and operated by Indian companies. The key conditions for claiming tax exemption include: (i) the foreign company shall not own or operate any physical infrastructure or resources of such specified data centre; and (ii) services to users located in India are made through an Indian reseller company. The tax exemption is not automatic and the foreign company would be required to be notified by the government for this purpose.

This amendment aims to provide a fillip to investment in data centres and promote the artificial intelligence data centre framework in India. Generally, aspects such as continuous access to or control over servers located in a data centre in India could expose a foreign entity to a taxable presence risk in India. Once a taxable presence is constituted, foreign entities are taxable in India on their income attributable to such presence, and there is inherent complexity in such determination. This amendment alleviates such concerns and provides certainty for 20 years with respect to such business arrangements.

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

### Tax sops for manufacturing of electronic goods

The Bill proposes a tax exemption to foreign companies on any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer being an Indian resident company which operates from a customs bonded warehouse and produces electronic goods on behalf of such foreign company till TY 2030-31.

The tax exemption is subject to the satisfaction of, *inter-alia*, the following conditions: (i) the ownership of capital goods, equipment or tooling continues to vest with the foreign company; and (ii) the capital goods and equipment to be under the control and direction of the contract manufacturer.

Business arrangements involving continued ownership of capital goods and equipment by a foreign entity used by contract manufacturers in India exposes the foreign entity to a taxable presence risk in India and related adverse consequences, subject to relief (if any) under applicable tax treaties. Typically, it is not feasible to transfer title to such capital goods and equipment to the contract manufacturer. The proposed amendment seeks to address such concerns.

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).



## **Tax exemption for non-resident individuals rendering services under a notified scheme**

The Bill proposes to provide a tax exemption to non-resident individuals for a period of 5 TYs from the TY in which such individual visits India for the first time on any income which accrues or arises outside India provided: (i) such individual provides services in connection with any scheme of the government (to be notified in due course); and (ii) such individual was a non-resident of India for immediately preceding 5 TYs. The Indian sourced income would however continue to be taxable in India.

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

## **GIFT City | Tax Incentives**

### **Extended 'Tax Holiday' window for Offshore Banking Units in SEZs and IFSC Units**

The Bill proposes to extend the availability of the tax holiday to specified Offshore Banking Units and International Financial Services Centre (IFSC) Units to a period of 20 years out of a block of 25 years (as against the current period of 10 years out of a block of 15 years). Post the expiry of tax holiday, the income shall be taxed at a reduced rate of 15%.

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

### **Tightening of dividend tax exemption for intra-group loans Involving IFSC 'Finance Company/Finance Unit'**

Currently, the deemed dividend tax provisions do not apply to an advance or loan between two group entities where, (a) one group entity is a 'Finance Company' or a 'Finance Unit', and (b) the parent entity or principal entity of the group is listed on a stock exchange in a country or territory outside India (subject to exclusions specified by the Central Board of Direct Taxes (Board)).

The Bill seeks to tighten the exemption framework with an additional condition that the other group entity to the transaction must be located in a notified country or territory outside India and the parent entity must be listed on a stock exchange in a notified country or territory outside India.

The proposal also seeks to reduce interpretational uncertainty by defining the relevant terms within the legislation, including: (a) 'group entity' by linking it to the expression 'group entities' in the International Financial Services Authority (Payment Services) Regulations, 2024; and (b) 'parent entity'/'principal entity' by setting out control tests, including (i) more than 50% of total voting power (directly or together with one or more subsidiaries); or (ii) controlling the composition of the board of directors.

The exemption would now be limited to cases where an IFSC finance/treasury entity transacts with an offshore group entity (subject to notified jurisdiction requirements for both counterparty location and listing of the parent entity).

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).



## Boost for the IT Sector: Incentives and Safe Harbour Expansion

### Tax incentives for IT sector and scope of Safe Harbour provisions enhanced

Taxpayers entering into 'specified transactions' may opt for notified transfer pricing margins/rates and the declared transfer prices are accepted by the Indian tax authorities (Safe Harbour Provisions).

The Hon'ble Finance Minister (FM), in her speech, has proposed the following in relation to Safe Harbours:

Nature of services	Proposed Safe Harbour rate
IT services (software development, IT-enabled, knowledge process outsourcing and contract R&D relating to software development)	15.5% on cost (revenue thresholds up to INR 20,000 mn)
Data centre services provided by Indian entity to its foreign associated enterprise (providing cloud services outside India)	15% on cost
Component warehousing (electronics manufacturing) in a bonded warehouse by non-residents	Profit margin of 2% of the invoice value

The finer details regarding applicability, mechanics and related provisions will be clear once the relevant rules are notified.

## Abolition of Dividend Tax Regime for Buyback of Shares

The Bill proposes to tax buyback proceeds as capital gains as against dividends under ITA 1961/ITA 2025, which were taxed on a gross basis (without any deduction for cost of acquisition and such cost was available as loss) at the applicable corporate tax rate for residents and 21.84% for non-residents (subject to treaty relief).

### Buyback of shares from Non-Promoters

Buyback proceeds will be taxed as capital gains at base tax rates ranging from 12.5% to 35%, depending on the residency of shareholder, type of shares (listed/unlisted) and period of holding of shares.

### Buyback of shares from Promoters

For any buyback of shares from Promoters (including non-resident Promoters), the Bill proposes to introduce additional tax on capital gains from sale of shares (other than short-term capital gains on sale of unlisted shares and off market sale of listed shares), resulting in the following base tax rates:

- Promoter being a domestic company: 22%
- Other Promoters: 30%

Short term capital gains on buyback of unlisted shares from Promoters shall be taxable at the base rates applicable to the Promoters (35% for non-resident corporates and 22%-30% for residents).





In case of multi-tier structures, the proposed change may entail higher tax cost on repatriation of buyback proceeds due to the unavailability of deduction that was otherwise available for inter-corporate dividends, which mitigated the cascading tax effect. Accordingly, evaluation of comparative effective tax incidence under the dividend and capital gains regimes, including impact of the additional promoter tax, unabsorbed past capital losses, any treaty benefit on capital gains (for non-residents) while determining the optimal mode of shareholder payout (i.e., dividend versus buyback) and the existing holding structures would become critical.

This amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

## Reforms in Penalty and Prosecution Framework

### Imposition of penalty within the assessment order

To avoid multiplicity of proceedings, the Bill proposes that a common order be passed, with the penalty imposed within the assessment order unlike separate proceedings and orders required under the existing provisions. Further, the Bill clarifies that no interest shall be charged on the demand raised on account of penalty until the Commissioner of Income-tax (Appeals) (CIT(A)) or Income Tax Appellate Tribunal (for appeal against Dispute Resolution Panel (DRP) orders) passes its order.

The amendments are proposed to be effective for orders passed on or after 1 April 2027.

### Rationalising of prosecution provisions

The Bill proposes to rationalise several prosecution provisions under ITA 2025, aiming to decriminalise certain offences and reduce punishments. Key changes include:

1. **Failure to deposit Tax Deducted at Source (TDS):** Decriminalisation of failure to pay TDS on online games and consideration from Virtual Digital Asset (VDA), etc. when paid wholly in kind. In other cases, punishment is proposed to be reduced.
2. **Wilful attempt to evade tax or false statement in verification:** Punishments for wilful tax evasion and making false statements are proposed to be reduced.

### Tax on unexplained credits, unexplained investments, unexplained asset, unexplained expenditure etc.

The Bill proposes to reduce the base tax rate to 30% (from 60%) while enhancing potential penalty for misreporting of income (to 200% of the tax payable from 10%) which may increase the effective tax burden, subject to immunity.

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards)

### Rationalisation of penalty provisions and introduction of penalty for crypto non-reporting

With a view to rationalise penal provisions, the Bill proposes to convert penalties for technical delays into fees. The penalties proposed to be converted into fees are penalties for failure to: (i) get accounts audited; (ii) furnish a transfer pricing report; and (iii) file Form 61A (Specified Financial Transaction (SFT) filing).

The Bill also proposes to provide immunity to cases of misreporting of income, subject to payment of 100% of the tax on such income (120% of the tax in case of deemed unexplained incomes).



Further, to ensure compliance, the Bill proposes to introduce penalty provisions for prescribed reporting entities that fail to furnish information relating to crypto-asset transactions, at INR 200 for each day during which such failure continues.

The amendments are proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

## **Tax Compliances | Filing of Tax Returns**

### **Change in Due Dates for filing tax return**

The Bill proposes changes to the due dates for filing income tax returns under the ITA 2025/ITA 1961, as follows:

- Due date for filing income tax returns by taxpayers having income under the head 'profits and gains of business of profession', whose accounts are not required to be audited, has been extended from 31 July to 31 August.
- Time limit for filing a revised return has been extended from 9 months to 12 months from the end of the TY, subject to payment of a nominal fee.

The amendment is applicable for tax returns for FY 2025-26 (ITA 1961) and for TY 2026-27 and onwards (ITA 2025).

### **Widening scope of updated tax returns**

An updated tax return can be filed within 60 months from the end of TY subject to payment of additional prescribed amounts (Excess Payment). The Bill proposes to expand the scope for filing updated tax returns to include the following cases:

- Reduction of losses provided the original return is filed within the due date (currently permitted only where a return of loss was converted into an updated return of income).
- In cases of reassessment, up to the date specified in the reassessment notice, subject to payment of additional 10% income-tax and interest over and above Excess Payment (currently specifically prohibited).

These amendments are proposed to be effective from 1 April 2026 (ITA 2025) and 1 March 2026 (ITA 1961).

### **Enabling Filing of Modified Returns by Related Parties pursuant to APAs**

The Bill permits the associated enterprise [whose income or tax liability is effected pursuant to an Advance Pricing Agreement (APA)] of the taxpayer who has entered into an APA to furnish a modified return (which was hitherto not permitted) within 3 months from the end of the month in which the APA was entered into.

This amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).



## Rationalisation of TDS/TCS provisions

### Tax deduction at source provisions for manpower supply arrangements clarified

The Bill clarifies that that manpower supply services shall be treated as payment for “work” and subject to TDS at 1% where the payee is an individual and 2% where the payee is any other person. The proposed amendment mitigates the re-characterisation disputes for standard manpower supply models.

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

### Rationalization of the Tax Collected at Source regime

The Bill proposes to streamline multiple TCS rates to a common rate of 2% for most specified transactions, including the following: (a) remittances outside India for medical or educational purposes under the Liberalised Remittance Scheme (LRS) (currently subject to TCS at 5% for an amount exceeding INR 1 million); and (b) overseas tour programme packages (currently subject to TCS at 5% for an amount of up to INR 1 million and at 20% where the remittance exceeds INR 1 million).

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

## Not-For-Profit Organisations

Amendments in the NPO regime are aimed at ensuring alignment and continuity between provisions of the ITA 1961 and ITA 2025. Several key clarifications include alignment of provisions such as (i) non-applicability of levy of ‘exit tax’ in case of merger of NPOs having similar objects (subject to fulfilment of certain conditions); (ii) commercial activity undertaken by the NPO where receipts from such commercial activity(ies) exceeds 20% of the total receipts to not qualify as a ‘specified violation’; and (iii) allowing NPOs to file belated returns.

The amendments are proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

## Minimum Alternate Tax

The Bill has introduced transformative changes to MAT provisions as under:

Particulars	Proposed changes
<b>Revised MAT Rate</b>	The Bill proposes to revise the MAT rate to 14% from current 15% rate.
<b>MAT as the final tax and set-off in later years</b>	The Bill proposes that MAT paid shall be the final tax and no credit shall be allowed to be accumulated to any company from the TY 2026-27 and onwards. However, any unutilised MAT credit accumulated up to TY 2025-26 shall be carried forward, subject to the prescribed conditions and thresholds.
<b>Expansion of scope of non-applicability of</b>	The Bill proposes to expand non-applicability of MAT provisions to foreign companies falling under the presumptive tax regime for specified businesses (i.e. business of operation of cruise ships and the business of providing services or





Particulars	Proposed changes
<b>MAT for foreign companies</b>	technology for the setting up an electronics manufacturing facility in India to a resident company).

These amendments are proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

## Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026 (FAST-DS 2026)

The Bill has proposed to introduce a one-time disclosure scheme for declaration of foreign assets and foreign-sourced income, intended to cover the following two categories of taxpayers:

S. No.	Categories of taxpayers	Tax payable under the proposed scheme
1.	Who failed to disclose foreign income or assets, subject to a threshold of INR 10 Million	Aggregate 60% (30% tax on such undisclosed income and/or foreign asset along with additional amount calculated at 30%) - as against 120% (being 30% tax and 90% penalty) along with interest and possible prosecution, if proceedings were to be initiated by tax authorities.
2.	Who acquired foreign assets as non-residents from their overseas income, or from income on which due taxes were paid in India but failed to report such asset in their tax filings, subject to a threshold of INR 50 Million	INR 0.1 Million

The payments made in above scenarios will grant immunity from penalty and prosecution and the amount paid will be non-refundable. The declarations will not impact completed assessments or will not entitle declarants to any claims, relief or set off in ongoing appeals.

The proposed Scheme shall come into force from the date to be notified by the Central Government.

## Relaxation of conditions for prosecution under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BM Act)

Sections 49 and 50 of the BM Act currently provide for rigorous imprisonment and fines where a resident wilfully fails to file a return of income or deliberately omits disclosure of foreign income or assets. The Bill proposes to amend these provisions to provide that prosecution shall not be initiated in respect of foreign assets (other than immovable property) where the aggregate value of unreported foreign assets does not exceed INR 2 Million.

These amendments are proposed to operate retrospectively with effect from 1 October 2024.



## Other Amendments

### Extending the due date to credit employee contribution by the employer to claim such contribution as deduction

The Bill proposes to extend the time limit to deposit employee contributions to provident, superannuation, or other welfare funds up to the income-tax return filing due date (as against the current timeline of due date under the respective statutes) to claim deduction for such contributions.

The amendment is proposed to be effective from 1 April 2026 (i.e. TY 2026-27 and onwards).

### Exemption for SGB redemption

Exemption on Sovereign Gold Bonds (SGB) redemption restricted to only original subscribers (and not secondary buyers) holding bonds from issue to maturity.

### Pre-deposit for appeals

The Hon'ble FM, in her speech proposed that pre-deposit for filing appeals will be reduced from current 20% to 10% of the tax demand. More clarity is awaited on the procedure and applicability of such reduced pre-deposits.

### Retrospective amendment on timelines for passing final assessment orders in DRP cases

ITA 1961 provides a general time frame of 24-36 months from the end of relevant FY to complete tax assessments (General Timeline). In case of certain specified taxpayers eligible to file objections before the Dispute Resolution Panel (DRP), a draft assessment order is passed.

Where objections are filed, the tax officer is required to pass a 'final assessment order' within prescribed timeline (Specified Timeline). General Timeline and Specified Timeline are prescribed under different provisions of the ITA 1961, resulting in divergent interpretations by High Courts and a split verdict by the Supreme Court on the timeline for passing the 'final assessment order'.

The Bill proposes to clarify this ambiguity by providing that the General Timeline governs the passing of 'draft assessment order' and not the 'final assessment order' and that the timeline to pass final assessment order shall be governed by Specified Timeline provided in Section 144C of the ITA 1961 (Section 275 of the ITA 2025).

The amendment is proposed to be clarificatory and is effective from 1 April 2009 (ITA 1961) and 1 April 2026 (ITA 2025).

### Retrospective amendment on quoting of DIN

In 2019, the Board had issued a circular mandating quoting of a computer-generated Document Identification Number (DIN) for communications from Income-tax department. Courts subsequently quashed assessment orders where DIN was not quoted/or was incorrectly quoted.

To prevent litigation on this issue, the Bill seeks to clarify that assessments will not be held invalid merely due to mistakes/omissions in quoting a computer-generated DIN, so long as the assessment order is referenced by a DIN in any manner.



This amendment is proposed to be clarificatory and is effective from 1 October 2019 (ITA 1961) and 1 April (ITA 2025).

### **Retrospective amendment on reassessment authority**

In 2022, the Government introduced a faceless scheme requiring reassessments to be conducted by a Faceless Assessing Officer (FAO). In practice, actions and inquiry prior to the issuance of a reassessment notice were undertaken by the Jurisdictional Assessing Officer (JAO), while the reassessment proceedings and reassessment order were carried out by the FAO. Various High Courts held that all actions were required to be undertaken by the FAO and not the JAO, resulting in the quashing of entire proceedings for want of requisite jurisdiction. This issue is currently pending before the Supreme Court.

The Bill proposes an amendment to clarify that JAO shall be the appropriate authority for all such actions.

The amendment is proposed to be clarificatory and is effective from 1 April 2021 (ITA 1961) and 1 April 2026 (ITA 2025).





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