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Union Budget 2026

A. Snapshot of Direct Tax Proposals

1. Income-tax slab rates

There is no change in income-tax slab rates for Individuals, Hindu Undivided Families, Associations of Persons, Bodies of Individuals and Artificial Juridical Persons under both the old regime and the concessional tax regime. Existing slab rates, rebate, surcharge and marginal relief continue unchanged.

2. MAT

The rate of Minimum Alternate Tax payable by companies is proposed to be reduced from 15% to 14% of book profit.

Further, it is proposed that the utilisation of MAT credit shall be restricted where the assessee opts for the concessional tax regime applicable to companies. In such cases, MAT credit can be set off only to the extent permitted under the revised provisions, and excess credit, if any, shall not be allowed to be carried forward.

Particulars	Existing law	Proposed change
MAT rate	15%	14%
MAT credit utilization	NIL	Restricted to 25% of tax payable under new regime

The above amendments are proposed to apply from 01.04.2026 onwards.

3. Exempt income and allowable deductions

a. Interest awarded for Motor Accident Claims to a natural person or to the legal heirs of a deceased individual is proposed to be exempt. Correspondingly, insurance companies would not be required to deduct tax at source on such interest payments. If the interest received by a non-individual upto Rs. 50,000 is only exempt.

b. Income arising from compulsory acquisition of land under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 is proposed to be exempt from income tax from 1st April 2016. The exemption does not extend to acquisitions falling under section 46 thereof of Land Acquisition Act.
c. Disability pension received by members of the Armed Forces and Paramilitary Forces is proposed to be exempt from income tax where such personnel are invalided out of service due to disability.
d. Currently, deduction of upto 20% interest of expenditure is allowed against dividend income. No interest expense can now be claimed against dividend income.

4. Time limits for filing returns

a. For taxpayers having income from business or profession who are not subjected to tax audit under Income Tax Act or under any other law for the time being in force, the due date for income tax return filing is extended from 31st July to 31st August.
b. Time limit for filing revised return is 9 months from the end of the relevant assessment year. However, a revised return can be filed beyond 9 months, upto 12 months now with payment of late fees as follows:
    i. one thousand rupees, if the total income of such person does not exceed five lakh rupees
    ii. five thousand rupees, in any other case

5. Updated return

a. Updated return can now be filed for offering additional income which has the effect of reducing losses claimed in the original income tax return filed.
b. Updated return can now be filed even after issuance of reassessment notice, subject to payment of additional 10% on (tax + interest) over and above the existing additional tax already payable for filing an updated return. This return shall be filed within the time allowed for filing tax return in the reassessment notice issued. Upon filing such updated return no other return is required to be filed in response to the reassessment notice.

Further, no penalty u/s 270A shall be levied on such additional income reported on which the additional tax of 10% is paid

6. **Tax Collection at Source (TCS) – Changes in Rates**

The following changes are proposed in Tax Collection at Source (TCS):

Nature of Transaction	Existing Law	Proposed
Overseas Tour Program Package	5% / 20%	2% (no threshold)
LRS - Education & Medical (if the payment is upto 10 Lakhs then no TCS)	5%	2%
LRS – Other than education and medical (if the payment is upto 10 Lakhs then no TCS)	20%	20%
Alcoholic liquor, scrap, minerals	Varied	2%
Tendu leaves	5%	2%

7. **Tax Deduction at Source (TDS) – Amendments and Rate Changes**

   a. Supply of manpower services is explicitly included within the scope of TDS on contracts, with tax deductible at one per cent in case of individuals and HUFs and two per cent in other cases.
   b. A rule-based automated system is proposed for grant of lower or nil TDS deduction certificates for small taxpayers.
   c. Depositories are empowered to accept Form 15G and Form 15H and transmit the same to multiple companies.
   d. In case of sale of immovable property by a non-resident, tax is to be deducted and deposited by the resident buyer through a PAN-based challan instead of a TAN.

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8. Assessment proceedings

a. Initiation of reassessment proceedings vests with the jurisdictional Assessing Officer. Assessment and penalty proceedings are to be completed through a common order.

b. Defects relating to non-quoting or incorrect quoting of DIN are treated as curable procedural defects.

9. Recovery proceedings

Stay of taxes can be sought against recovery of disputed taxes by paying pre-deposit of 10% of disputed tax. Earlier, a pre-deposit of 20% was required for obtaining stay of taxes.

10. Decriminalization of prosecution proceedings

For offences committed under the Income Tax Act, imprisonment prescribed is now restricted to simple imprisonment upto a maximum period of 2 years. Earlier it was a rigorous imprisonment.

11. Penalty

a. Tax Audit Penalty has been changed with 'Late Fees' of Rs. 75,000 (one month delay) and Rs. 1,50,000 (Other cases).

b. TP Audit (3CEB) Penalty has been changed with 'Late Fees' of Rs.50,000 (one month delay) and Rs. 1,00,000 (Other cases).

c. Penalties relating to assessment/reassessment of income will now be levied while completing the assessment/reassessment proceedings

12. Interest waiver on late payment of tax demands:

Interest on penalty levied u/s 270A is waived for the below periods:

a. Upto the date of ITAT order where the assessment order is passed pursuant to the directions of DRP

b. Upto the date of CIT(A) order where the order is passed in any other case

13. Transfer Pricing - Rationalization of Time Limits

Due date for passing transfer pricing order by the officer is amended as follows:

a. If the period of limitation 153 or u/s 153B as on 31st March of any non-leap year, then the due date shall be considered as 30th January.
b. If the period of limitation 153 or u/s 153B as on 31st March of any leap year, then the due date shall be considered as 31st January.
c. If the period of limitation 153 or u/s 153B as on 31st December of any year, then the due date shall be considered as 01st November.

The above amendment shall be deemed to have been effective from June 01, 2007.

14. Block Assessment - Limitation Period Rationalization

a. Limitation period for completion of block assessment in respect of other persons is proposed to be aligned with the date of initiation of search instead of the date of receipt of seized material.
b. Time limit to complete block assessment linked to 'search initiation' – order to be passed within 18 months from the end of the quarter in which search is initiated.

15. Tax Rate on Unexplained Income

The rate of tax on unexplained income is proposed to be reduced from sixty per cent to thirty per cent, along with applicable surcharge and cess. Penalty on such income is subsumed into penalty applicable for under reporting and misreporting of income.

16. Taxability on Buy-back of Shares

Particulars	Existing Law	Proposed Change
Tax incidence	Company liable to additional tax	Company-level tax withdrawn
Taxability in shareholders' hands	Taxable as dividend income	Taxable as capital gains

The effective tax liability on gains arising from buy-back in specified cases shall be as follows:

a. In case of promoter companies who are shareholders, the effective tax liability will be 22%.

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b. In case of shareholders who are promoters other than companies, the effective tax liability will be 30%.

The above rates comprise tax payable at the applicable rates together with an additional tax.

17. IT/ ITES, Safe Harbour

a. Software development services, ITES, KPO and contract R&D services are proposed to be clubbed into a single category of IT services.
b. A common safe harbor margin of 15.5% is proposed, with the turnover threshold enhanced to ₹2,000 crore.
c. Safe harbor approvals are proposed to be granted through an automated rule-driven process and remain valid for five consecutive years.

18. Global Business and Non-resident Incentives

Tax holiday till 2047 is proposed for foreign companies providing cloud services globally using India-based data centers.

19. ICDS and Ind AS

ICDS requirements are proposed to be integrated into Ind AS, and separate ICDS compliance is proposed to be dispensed with from the year 2027-28.

20. Securities Transaction Tax

Particulars	Existing Law	Proposed Change
STT – Futures	0.02%	0.05%
STT – Options	0.10% / 0.125%	0.15%

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21. Merger of Charitable Trusts

Accreted income tax is not to apply in cases of merger or dissolution of charitable trusts, subject to fulfilment of prescribed conditions.

22. Co-operative Societies

a. Deduction is extended to supply of cattle feed and cotton seeds in addition to milk, oilseeds, fruits and vegetables.
b. Inter co-operative society dividend income is deductible to the extent further distributed, including under the concessional tax regime.
c. A three-year exemption is proposed for dividend income of notified national co-operative federations on investments made up to 31 January 2026.
d. Interest paid to a cooperative society in a banking business is not liable for TDS deduction

23. Foreign Assets Disclosure Scheme, 2026 (One-time)

A one-time disclosure window is introduced for resident taxpayers with immunity from penalty and prosecution for non-disclosure of foreign assets and foreign income earned.

Category	Threshold	Amount Payable
Category A	Income and Asset ≤ ₹1 crore	30% tax on undisclosed asset and income + Equivalent amount of additional tax
Category B	Assets acquired while being non-resident or the assets acquired from income on which the income tax is paid by the assessee ≤ ₹5 crore	Fee of ₹1 lakh

24. Foreign Asset Non-disclosure – Small Value

Immunity from prosecution is proposed retrospectively from 1 October 2024 for non-disclosure of non-immovable foreign assets with aggregate value below ₹20 lakh.

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B. Snapshot of Goods and Services Tax proposal:

25. Post sale discounts given shall not form part of value of supply provided:

a. A credit note to this extent is issued by the supplier and

b. The recipient of supply reversed the corresponding input tax credit

26. GST refund:

Provisional refund of GST mechanism is now extended to inverted duty structure cases

27. Place of supply:

Place of supply for intermediary services shall be the location of recipient

Scope Limitations:

1. This note is solely for the basic understanding of the amendments introduced vide Finance Budget 2026 and intended for internal circulation only.
2. Views expressed here are based on the law that is existing as of the date of this note read along with the Finance Budget 2026. We have no responsibility to update the views for events, transactions, circumstances changes or developments in any of the facts, or regulations occurring after this date. Further, the views expressed cannot be relied upon for any decision making.
3. Our views and comments are not binding on any regulators and there can be no assurance that the regulators will not take a position contrary to our views/comments.
4. While we believe that our views/comments reflect a reasonable interpretation of the relevant tax laws in India, there cannot be any guarantee or assurance that the Indian Revenue authorities will agree with our analysis and conclusions. Therefore, we shall not be liable for any tax, interest or penalty levied as a result of reliance on our views/comments.
5. Further, we assume no responsibility (unless contracted for specifically on a separate basis) to defend this opinion before any income tax authority or other third parties.
6. In no event shall we be liable (to any party) for damages or expenses even if we have been advised of the possible existence thereof.