



The Union Budget 2026-27, presented by Finance Minister Nirmala Sitharaman on February 1, 2026, is centered around three guiding "**Kartavya**" (Duty) Pillars: productivity-led growth, national capacity creation, and universal opportunity access.

**Here is a brief summary of the key highlights:**

#### **A. The Big Numbers & Economy**

- ❖ **Capital Expenditure:** A record-high outlay of **₹12.2 lakh crore** (approx. 7.7% increase) to drive infrastructure, roads, and railways.
- ❖ **Fiscal Deficit:** Targeted at **4.3% of GDP** for FY27, down from 4.4% in the previous year, showing a commitment to fiscal discipline.
- ❖ **GDP Growth:** The government estimates a nominal GDP growth rate of **10%** for the coming year.

#### **B. Tax Proposals & Personal Finance**

- ❖ **Income Tax Slabs:** No changes were made to the existing income tax slabs for the assessment year 2026-27.
- ❖ **New Income Tax Act 2025:** A revamped and simplified tax code will come into effect from **April 1, 2026**, aiming to reduce litigation and complexity.
- ❖ **TCS Relief:** Tax Collected at Source (TCS) on **overseas tour packages** and remittances for **education and medical treatment** has been reduced to **2%** (down from 5% or 20% in some cases).
- ❖ **Stock Market Taxes:** The **Securities Transaction Tax (STT)** on futures and options was increased significantly, which led to some initial market volatility.
- ❖ **Share Buybacks:** These will now be taxed as "Capital Gains" for shareholders rather than dividend income.

### C. Key Sectoral Initiatives

- ❖ **Manufacturing & Tech:** The **Electronics Component Manufacturing Scheme** was boosted to ₹40,000 crore. **Semiconductor Mission 2.0** was also launched.
- ❖ **MSMEs:** A dedicated **₹10,000 crore SME Growth Fund** was announced to support innovation and expansion for small businesses.
- ❖ **Health & Pharma:** The "**Biopharma SHAKTI**" initiative (₹10,000 crore) was introduced to build a domestic ecosystem for biologics.
- ❖ **Infrastructure:** Seven new high-speed rail corridors and 20 new national waterways were proposed.
- ❖ **Energy:** Focus on "Rare Earth Corridors" in states like Odisha and Kerala to secure critical minerals.

### D. Social & Youth Focus

- ❖ **Orange Economy:** 15,000 Content Creator Labs (AVGC - Animation, Visual Effects, Gaming, and Comics) will be set up in schools and colleges.
- ❖ **Education to Employment:** A new standing committee was formed to align the services sector with job creation, specifically looking at the impact of AI.

### Total Tax Revenue

In the Union Budget 2026-27, the government has set a target for **Gross Tax Revenue (GTR) of ₹44.04 lakh crore**, which is an **8% increase** over the Revised Estimates (RE) of the previous year.

The most notable trend is the government's heavy reliance on **Direct Taxes**, which are expected to grow by **11.4%**, while **Indirect Taxes** (specifically GST) are projected to see a minor contraction due to recent rate cuts aimed at boosting consumption.

Tax Component	2025-26 RE (₹ Crores)	2026-27 BE (₹ Crores)	Difference (%)
<b>Gross Tax Revenue (GTR)</b>	<b>40,77,772.00</b>	<b>44,04,086.45</b>	<b>+8.0%</b>
<b>Direct Taxes (Total)</b>	<b>23,57,330.00</b>	<b>26,23,300.00</b>	<b>+11.3%</b>
— Corporation Tax	11,09,000.00	12,31,000.00	+11.0%
— Taxes on Income other than Corp Tax	12,48,000.00	13,92,000.00	+11.5%
<b>Indirect Taxes (Total)</b>	<b>16,52,169.00</b>	<b>17,02,315.00</b>	<b>+3.0%</b>
— Goods and Services Tax (GST)*	10,51,499.00	10,24,505.00	-2.6%

Tax Component	2025-26 RE (₹ Crores)	2026-27 BE (₹ Crores)	Difference (%)
— Customs	2,58,290.00	2,71,200.00	+5.0%
— Union Excise Duties	3,36,550.00	3,88,910.00	+15.6%
<b>Taxes on Property &amp; Capital</b>	<b>63,670.00</b>	<b>73,700.00</b>	<b>+15.8%</b>
— <i>Securities Transaction Tax (STT)</i>	63,670.00	73,700.00	+15.8%

- **The Direct Tax Surge:** Revenue from income taxes (both corporate and personal) is the primary engine of growth, projected to increase by over **₹2.6 lakh crore** in the coming year.
- **GST Rationalization Impact:** Consistent with previous summaries, the budget documents show a projected decline in total GST collection from **₹10.51 lakh crore (RE)** to **₹10.24 lakh crore (BE)**.
- **Central Government Share:** After the mandatory devolution of taxes to the states, the **Net Tax Revenue of the Central Government** is estimated at **₹28,77,831.87 crore** for 2026-27, up from ₹26,84,801.12 crore in the 2025-26 Revised Estimates.
- **Excise Duty Growth:** Union Excise Duties are expected to see a sharp jump of **15.6%**, the highest percentage increase among the major indirect tax heads.

#### Total Revenue Disbursement (Expenditure)

Expenditure Category	2025-26 RE (₹ Crores)	2026-27 BE (₹ Crores)	Change (%)
<b>A. General Services</b>	<b>22,38,364.26</b>	<b>23,87,147.11</b>	<b>+6.6%</b>
— Interest Payments	13,10,128.40	14,39,971.79	+9.9%
— Defence Services (Revenue)	3,58,844.84	3,72,539.69	+3.8%
— Police	1,45,650.41	1,52,588.31	+4.8%
— Tax Collection	53,883.40	40,907.36	-24.1%
<b>B. Social Services</b>	<b>1,76,896.95</b>	<b>2,17,795.67</b>	<b>+23.1%</b>
— General Education	42,719.73	47,917.62	+12.2%
— Medical and Public Health	46,277.36	50,875.11	+9.9%
— Labour, Employment & Skill Dev.	12,759.12	33,215.55	+160.3%

Expenditure Category	2025-26 RE (₹ Crores)	2026-27 BE (₹ Crores)	Change (%)
<b>C. Economic Services</b>	<b>13,28,058.54</b>	<b>12,78,107.17</b>	<b>-3.8%</b>
— Agriculture & Allied Activities	4,06,568.34	4,05,397.51	-0.3%
— Rural Development	1,21,471.22	48,170.69	-60.3%
— Energy (Power & Petroleum)	76,961.33	99,249.40	+29.0%
— Transport (Railways/Roads)	2,93,221.02	3,18,257.28	+8.5%
<b>D. Grants-in-Aid &amp; Contributions</b>	<b>5,05,601.15</b>	<b>6,48,254.76</b>	<b>+28.2%</b>
<b>Total Revenue Disbursements</b>	<b>42,69,150.84</b>	<b>45,48,274.39</b>	<b>+6.5%</b>

- **Massive Jump in Skill Development:** The allocation for Labour, Employment, and Skill Development has seen a staggering increase of over 160%, rising from ₹12,759 crore to ₹33,215 crore.
- **Rural Development Contraction:** There is a significant reduction in the Rural Development revenue budget, which dropped by 60.3% compared to the previous year's revised estimates.
- **Interest Burden:** Interest payments remain the largest single expenditure item, accounting for nearly ₹14.4 lakh crore, which is approximately 31.6% of the total revenue disbursements.
- **Energy Focus:** The Energy sector (specifically Power and New & Renewable Energy) received a substantial boost of 29%, indicating a shift toward infrastructure and green energy initiatives.
- **Defence Spending:** Revenue expenditure for the Army, Navy, and Air Force continues to grow steadily, with the Army remaining the largest recipient at ₹2,47,819 crore.



## Tax proposition in Budget 2026

### 1. Rate of Income Tax

Finance Minister Nirmala Sitharaman announced no changes to income tax slabs and rates under both the new and old tax regimes for FY 2026-27. The tax structure introduced in Budget 2025 continues for both financial years.

#### 1.1. Individuals, HUFs, AOPs, BOIs, and AJP (Default Rates)

Applicable under Section 202 of the 2025 Act and Section 115BAC(1A) of the 1961 Act.

##### New Regime

Total Income Range (₹)	Tax Rate (%)	Simplified Implications
Up to 4,00,000	Nil	No tax for income up to ₹4 lakh.
4,00,001 to 8,00,000	5%	First taxable slab starting after ₹4 lakh.
8,00,001 to 12,00,000	10%	Gradual increase in tax for middle-income earners.
12,00,001 to 16,00,000	15%	Middle-income slab.
16,00,001 to 20,00,000	20%	Higher-middle income slab.
20,00,001 to 24,00,000	25%	Upper-income slab.
Above 24,00,000	30%	Maximum marginal rate for high earners.

##### Income Tax Rates for Individuals (Old Regime)

##### Old Regime

Total Income Range (₹)	Individuals (Age < 60) & HUFs	Senior Citizens (Age 60 to <80)	Super Senior Citizens (Age 80+)
Up to 2,50,000	Nil	Nil	Nil
2,50,001 to 3,00,000	5%	Nil	Nil
3,00,001 to 5,00,000	5%	5%	Nil
5,00,001 to 10,00,000	20%	20%	20%
Above 10,00,000	30%	30%	30%

#### 1.2 Firms, Local Authorities, and Co-operative Societies

Applicable under Part I-A/I-B of the First Schedule.

Assessee Category	Tax Rate	Simplified Implications
Firms (including LLPs)	30%	Flat tax rate on total income.
Local Authorities	30%	Flat tax rate on total income.
Co-operative Societies	10% to 30%	Graded rates: 10% (<₹10k), 20% (₹10k-₹20k), 30% (>₹20k).

### 1.3 Companies (Domestic and Foreign)

Applicable under Sections 200/201 (2025 Act) and Paragraph E of First Schedule.

Assessee Category	Tax Rate	Simplified Implications
<b>Domestic Company</b> (Turnover ≤ ₹400 Cr in FY 23-24)	<b>25%</b>	Lower rate for small and medium enterprises.
<b>Domestic Company</b> (All other cases)	<b>30%</b>	Standard rate for large domestic companies.
<b>Foreign Company</b>	<b>35%</b>	Standard rate for foreign entities, unless special rates apply.

### 1.4 Additional Levies (Surcharge and Cess)

Applicable to all assessees.

Nature of Levy	Rate (%)	Simplified Implications
<b>Health and Education Cess</b>	<b>4%</b>	Applied on the sum of income tax and surcharge.
<b>Surcharge (High Earners)</b>	<b>10% to 25%</b>	Graded based on income levels (₹50L - ₹2Cr+).
<b>Surcharge (Companies)</b>	<b>2% to 12%</b>	Varies by company type and income (₹1Cr - ₹10Cr+).



## 2. Rate of Tax Deduction at Source - TDS

Budget 2026 introduces several important changes to TDS provisions under both the Income Tax Act, 1961 (applicable until March 31, 2026) and the new Income Tax Act, 2025 (effective from April 1, 2026).

### 2.1 Supply of Manpower Services:

Supply of manpower services explicitly brought under Section 393(1) [Sl. No. 6(i)] as "work" for TDS purposes i.e. "payment to contractors" (Sections 194C), w.e.f. 1<sup>st</sup> April 2026, attracting TDS at 1%/2% rates, eliminating ambiguity and litigation for staffing firms.

### 2.2 Interest on Motor Accident Compensation:

No TDS required on interest awarded by Motor Accidents Claims Tribunal to individuals w.e.f. 1<sup>st</sup> April 2026. Previously, TDS applied if interest exceeded ₹50,000. Now completely exempt for individuals and their legal heirs

### 2.3 Sale of Immovable Property by Non-Residents

Resident buyers can now deduct TDS using their PAN-based challan instead of requiring a separate TAN for property purchases from non-residents w.e.f. 1<sup>st</sup> October 2026. This provision is in line with Section 194-IA of the Income Tax Act, 1961. This amendment will eliminate the burden of obtaining TAN for one-time transactions

### 2.4 Lower/Nil TDS Certificate Process

It is proposed from 1<sup>st</sup> April 2026 for Small taxpayers to obtain Lower / Nil deduction certificates through a rule-based automated process i.e. application to be filed electronically to the prescribed authority without filing manual application before the Assessing Officer.

### 2.5 Form 15G/15H Filing - Centralized System

It is proposed from 1<sup>st</sup> April 2027 that taxpayers can file Form 15G/15H declarations centrally with depositories (CDSL/NSDL) for receipt of dividend, interest, and mutual fund income. Depositories will forward declarations to all relevant payers and hence no need to file separate declarations with each company/fund house. Deductors will receive declarations quarterly instead of monthly.

### 2.6 Following rates of TDS is changed:

Nature of Payment	FY 2025-26 (Existing)	FY 2026-27 (Proposed)
Manpower Supply Services	Ambiguous (often 10% as fees)	1% (Individual) / 2% (Others)
Interest on compensation received from Motor Accident Claims Tribunal (MACT)	10% (In interest exceeds Rs. 50,000)	Fully exempted

## 3. Tax Collection at Sources (TCS)

Budget 2026 significantly reduces TCS rates under the Liberalised Remittance Scheme (LRS), overseas tour packages and specified high-volume goods to promote uniformity and reduce compliance burdens from 1<sup>st</sup> April 2026 (FY 2026-27).

Nature of Receipt	FY 2025-26 (Existing)	FY 2026-27 (Proposed)
Sale of Scrap	1%	2%
Minerals (Coal/Lignite/Iron Ore)	1%	2%
Overseas Tour Package	5% (up to ₹ 10 Lakhs / 20%)	2%
LRS (Other than Education/Medical)	5% (> ₹10L)	2% (> ₹10L)
Tendu Leaves	5%	2%
Alcoholic Liquor (Human Cons.)	1%	2%

#### 4. Due Dates for Filing Income Tax Returns

Budget 2026 introduces **extended due dates for specific categories** to provide more time for compliance and reduce grievances.

	FY25-26	FY 26-27	FY25-26	FY 26-27	FY25-26	FY 26-27	FY25-26	FY 26-27
Taxpayer category	Non-Audit and Non-TP		Business/Prof. not audited, non-TP		Audit, non-TP		TP report	
Individuals & HUFs	31-Jul-26	31-Jul-27	31-Aug-26	31-Aug-27	31-Oct-26	31-Oct-27	30-Nov-26	30-Nov-27
Partnership Firms & LLPs	31 Jul 2026 (only if falls in "any other assessee" bucket)	31 Jul 2027 (only if "any other assessee")	31-Aug-26	31-Aug-27	31-Oct-26	31-Oct-27	30-Nov-26	30-Nov-27
Corporate Entity (Company)	—	—	—	—	31-Oct-26	31-Oct-27	30-Nov-26	30-Nov-27
AOPs, BOIs & Trusts	31-Jul-26	31-Jul-27	31-Aug-26	31-Aug-27	31-Oct-26	31-Oct-27	30-Nov-26	30-Nov-27



## 5. Revision and Up-dation of Income Tax Return: [S. 139 (5) of 1961 Act and S. 263 (5) of 2025 Act]

In Budget 2026, significant amendments have been proposed to the provisions governing the revision of income tax returns to provide more flexibility to taxpayers and reduce litigation. The primary objective of these amendments is to allow taxpayers more time to correct errors or omissions, especially in cases where a belated return is filed near the end of the current deadline.

Taxpayers now get an additional 3 months (12 months instead of 9) to revise their returns, providing a safety net for those filing belated returns late.

### 5.1 Levy of Fees:

If a taxpayer revises the Income Tax Return after nine months of the relevant financial year or before the completion of the assessment which ever is earlier, than taxpayer needs to pay late filing fees amounting to ₹ 5,000 (If total income > ₹ 5.00 Lakhs) or ₹ 1,000 (if total income < ₹ 5.00 Lakhs).

These provisions are set to take effect from **March 1, 2026**, for the Income-tax Act, 1961, and **April 1, 2026**, for the Income-tax Act, 2025

### 5.2 Updated Return:

#### Existing Provisions of Updated Return (Section 139(8A))

Under the current provisions of the Income Tax Act, 1961, Section 139(8A) allows a taxpayer to file an **Updated Return (ITR-U)** within 24 months from the end of the relevant assessment year. This facility is available regardless of whether the taxpayer has previously filed an original, belated, or revised return. However, it comes with the condition of paying "additional tax" to regularize the disclosure: **25%** of the aggregate of tax and interest if filed within 12 months, and **50%** if filed between 12 to 24 months. **Importantly, under existing rules, an updated return cannot be filed if it results in a loss, reduces the total tax liability, or increases a refund.**

#### Budget 2026: Relaxations for Loss Returns

A major highlight of the Budget 2026 is the relaxation of the "no-loss" rule for updated returns. The government has proposed to allow taxpayers to file an updated return even if it is a **return of loss**, provided that the updated return **reduces the quantum of loss** compared to what was originally claimed. Previously, an updated return was only permitted if it resulted in a positive income. This amendment allows taxpayers to voluntarily rectify excess loss claims—which might otherwise lead to penalties during assessment—by paying the applicable additional tax on the difference.

#### Budget 2026: Updated Returns During Reassessment

In a move to reduce protracted litigation, the Budget 2026 proposes to allow taxpayers to file an updated return even **after reassessment proceedings have been initiated**. Under the new proposal, if a notice for reassessment has been issued, a taxpayer can opt to file an updated return to disclose additional income by paying an additional **10% tax** (over and above the standard additional tax and interest). It means the window of 24 months is now extended to 48 months (4 Years) from the end of the relevant assessment year. Successfully filing this return and paying the additional tax will preclude the department from imposing further penalties on the income so disclosed, offering a "clean slate" mechanism during the audit phase.

The updated provisions under the new **Income-tax Act, 2025** officially come into force from **April 1, 2026**. However, to ensure a smooth transition, the government has proposed similar amendments to the current Income-tax Act, 1961, which are expected to take effect as early as **March 1, 2026**.

Time from End of Relevant AY	Additional Tax Payable
0 – 12 Months	25% of tax + interest
12 – 24 Months	50% of tax + interest
24 – 36 Months	60% of tax + interest
36 – 48 Months	70% of tax + interest
During Reassessment	<b>Additional 10%</b> on top of the above tiers



## 6. Rationalisations of Penalties & Prosecutions:

The Union Budget 2026-27, presented by Finance Minister Nirmala Sitharaman, introduced a significant "trust-based" shift in how the government handles compliance. The core philosophy of this budget is to decriminalize minor offenses and convert discretionary penalties into predictable, mandatory fees from 1<sup>st</sup> April 2026.

### 6.1 Fees for Technical Defaults

These are now largely converted into automatic Fees or fixed penalties to reduce officer discretion and litigation.

Nature of Default	Section (New Act)	Penalty / Fee Amount
Delay in Tax Audit Report	Sec 446	₹75,000 (up to 1 month delay); ₹1.5 Lakh (beyond 1 month)
Delay in TP Audit Report	Sec 447	₹50,000 (up to 1 month delay); ₹1.0 Lakh (beyond 1 month)
SFT Filing (Initial Delay)	Sec	₹500 per day (subject to a cap of ₹1 Lakh)
Under-reporting of Income (calculation error / differing interpretation)	Sec 439(9)	50% of the tax payable on under-reported income
Misreporting of Income (suppression)	Sec 439(10)	100% of the tax payable on misreported income or 120% for un-explained credits / investments
False Entry / Fake Invoices	Sec 271AAD	100% of the aggregate amount of false or omitted entries. This penalty applies not only to the person maintaining the books but also to anyone who <b>induces</b> the false entry (like an accountant or consultant).
Late ITR Filing (U/s 139)	Sec 234F	₹5,000 (₹1,000 if total income < ₹5 Lakh)
TDS/TCS Statement Delay	Sec 234E / 271H	₹200 per day (not exceeding the TDS amount) If the statement is not filed within <b>one year</b> of the due date, the penalty remains between <b>₹10,000 and ₹1,00,000</b> .

### 6.2. Graded Prosecution Framework

In **Budget 2026** (and the new **Income-tax Act, 2025**), the government has overhauled prosecution provisions to distinguish between "technical errors" and "intentional fraud." The guiding principle is to reduce the fear of "Tax Terrorism" for honest citizens while retaining strict deterrents for high-value

evasion. The Budget has rationalized prosecution by replacing "Rigorous Imprisonment" (RI) with **Simple Imprisonment (SI)** and introducing clear monetary thresholds.

Nature of Offence	Section (New Act)	Amount Involved	Punishment (Budget 2026)
Wilful Tax Evasion	Sec 276C	> ₹50 Lakh	Simple Imprisonment (6 mo. to 2 years) + Fine
		₹10L – ₹50 Lakh	Simple Imprisonment (up to 6 months) + Fine
		< ₹10 Lakh	<b>Fine only</b> (Decriminalized)
Failure to File Return	Sec 276CC	Tax > ₹10,000	Simple Imprisonment (up to 2 years)
		Tax < ₹10,000	<b>No Prosecution</b>
TDS/TCS Non-Payment	Sec 276B/BB	> ₹50 Lakh	Simple Imprisonment (up to 2 years)
		< ₹50 Lakh	Simple Imprisonment (up to 6 months) or Fine
Non-Production of Books	Multiple	Any	<b>Fully Decriminalized</b> (Fines only)

### 6.3. Immunity & Relief Provisions

A major highlight of the 2026 Budget is the expansion of "Immunity" to prevent long-drawn court cases.

- ❖ **Immunity for Misreporting (Sec 440):** Previously, immunity under Section 440 was limited to cases of simple "**under-reporting**" of income. The Budget 2026 amendment has significantly expanded this scope. Now it is extended to cases where under-reporting is a consequence of **misreporting** (e.g., suppression of facts, claim of false expenses, or international transactions not recorded). To avail the immunity, taxpayer is required to pay **100% additional tax** (total 200% tax) in cases of General mis-reporting and 120% additional tax (total 220%) in cases of unexplained cash credits & investments and do not file an appeal. Moreover, application of immunity has to be filed within a period of one month from the end of the month in which the assessment order was received.
- ❖ **Foreign Asset Disclosure:** A one-time 6-month window allows students and NRIs to disclose low-value foreign assets (like ESOPs or old bank accounts) without any prosecution, regardless of the section.
- ❖ **Integrated Orders:** Penalties will now be part of the main Assessment Order, meaning you don't have to fight two separate legal battles for one mistake.

**Caution:**

**Zero Tolerance for One-Day Delays:** For Tax Audits, even a **one-day delay** now triggers an automatic fee of ₹ 75,000. Previously, the 0.5% rule meant small businesses paid very little; now, the hit is substantial regardless of turnover.

**Mandatory Payment:** Unlike penalties, which you could appeal by proving "reasonable cause," these are **Fees**. You generally have to pay them **before** you are allowed to upload the report or statement.

**6.4. Applicability of the provisions of Penalties & prosecution**

Provision	Effective From
New Income Tax Act, 2025	April 1, 2026
Rationalised Penalties & Fees	April 1, 2026
Graded Prosecution Framework	April 1, 2026
Foreign Asset Immunity (<₹20L)	October 1, 2024 (Retrospective)
Reduced Appeal Pre-deposit (10%)	April 1, 2026
Revised Return Deadline (March 31)	Assessment Year 2026-27



## 7. Minimum Alternative Tax (MAT) – S. 115JB

The Minimum Alternate Tax (MAT) is a provision in the Indian Income Tax Act designed to ensure that companies with high "book profits" (as per their financial statements) do not escape taxation entirely by utilizing various exemptions and incentives to report zero or negligible taxable income under normal tax rules.

Under Section 115JB, companies are required to pay the higher of the tax calculated on their total income under normal provisions or a specific percentage (MAT) of their "book profits." If MAT is paid, the difference between the MAT and the normal tax could traditionally be carried forward as a MAT Credit for up to 15 years, which could be set off in future years when the normal tax exceeded the MAT liability.

### Key Amendments in Budget 2026

#### No Fresh Accrual of MAT Credit

- ❖ **Existing Law:** When a company's MAT liability is higher than its normal tax, the difference is credited to the company as **MAT Credit** under Section 115JAA, which can be carried forward for **15 years**.
- ❖ **Budget 2026 Proposal:** From **April 1, 2026**, MAT will be treated as a **final tax**. No new MAT credits will be generated for taxes paid under the MAT provisions for the Tax Year 2026-27 onwards.

#### Mandatory Transition for Credit Utilization

- ❖ **Existing Law:** Companies could set off MAT credits while staying in the "Old Tax Regime" (where tax rates are 25–30%).
- ❖ **Budget 2026 Proposal:** Domestic companies can only utilize their **accumulated MAT credit** (the balance available as of March 31, 2026) if they **shift to the New Concessional Tax Regime** (22% rate). If a company stays in the old regime, its accumulated MAT credit will effectively lapse or remain unusable.

#### Capped Utilization (The 25% Rule)

- ❖ **Existing Law:** Companies could use their MAT credit to pay their entire tax liability down to the level of what the MAT would have been for that year (full set-off of the difference).
- ❖ **Budget 2026 Proposal:** Even after shifting to the new regime, the set-off of old MAT credit is now **capped at 25%** of the company's tax liability in any given year. This "use-it-or-lose-it" approach forces a much slower utilization of legacy credits.

#### Special Relief for Foreign Companies

- ❖ **Budget 2026 Proposal:** Unlike domestic companies, foreign companies (which cannot opt for the 22% regime) will still be allowed to set off their existing MAT credits against their normal tax liability. Crucially, the **25% cap does not apply to them**; they can continue to set off credit to the extent of the difference between normal tax and MAT liability.

Feature	Existing Law (Pre-Budget 2026)	Proposed Budget 2026 (Eff. April 1, 2026)
<b>MAT Rate</b>	15% of Book Profits	14% of Book Profits
<b>Nature of Tax</b>	<b>Credit-based:</b> Excess MAT paid acts as a "prepaid tax" for the future.	<b>Final Tax:</b> MAT becomes a terminal levy; no fresh credits are generated.
<b>New Credit Accrual</b>	Allowed; can be carried forward for <b>15 years</b> .	<b>Discontinued:</b> No MAT credit accrues for taxes paid after April 1, 2026.
<b>Utilization (Domestic)</b>	Can be set off in the Old Regime without specific annual caps.	<b>Restricted:</b> Only available if moving to the <b>New Regime (22%)</b> ; capped at <b>25%</b> of tax liability.
<b>Utilization (Foreign)</b>	Same as domestic companies.	<b>Relaxed:</b> Can set off existing credits without the 25% cap (up to the tax difference).
<b>Lapse of Credit</b>	Credits remain valid for 15 years.	Credits accumulated up to March 31, 2026, will <b>lapse</b> if the company stays in the Old Regime.
<b>Foreign Companies</b>	Generally applicable to all foreign companies.	<b>Exempted</b> for non-residents/foreign firms taxed under <b>Presumptive Schemes</b> .

**Big Change in MAT Rules!**

**No New MAT Credit!**

Rate Reduced to **14%**

From AY 2026-27

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

### 8.1 Brief about the scheme:

In the Union Budget 2026, Finance Minister Nirmala Sitharaman introduced the Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 (FAST-DS 2026) to provide a much-needed **"fresh start"** for individuals who may have unintentionally failed to report overseas holdings. This one-time compliance window is specifically designed to help students who held part-time jobs abroad, young professionals with foreign ESOPs, and relocated NRIs who left legacy savings or insurance policies in other countries. Recognizing that many of these lapses are due to complex reporting rules rather than a desire to evade taxes, the scheme offers a simplified path to regularize these assets without the standard, severe penalties of the Black Money Act.

### 8.2 Time limit and person who are eligible under scheme:

The scheme operates through a graded framework that lasts for a six-month window from a date yet to be notified. **Under Category A**, taxpayers who failed to disclose both the foreign income and the asset itself can regularize their records if the aggregate value does not exceed ₹1 Crore. In this case, the individual must pay a total of 60% (comprising 30% tax on the fair market value and another 30% as a penalty-equivalent levy) to gain complete immunity from future prosecution and reassessment.

For those **in Category B**, where the income was already taxed or declared but the taxpayer simply forgot to list the asset in "Schedule FA" of their return, the relief is even more significant. If the asset value is up to ₹5 Crore, these individuals can regularize the reporting error by paying a flat fee of ₹1 Lakh.

This effectively removes the threat of the standard ₹10 Lakh per year penalty typically charged for such technical reporting failures and potential imprisonment as provided under Black Money Act. FAST-DS 2026 offers a way to "clean the slate" by paying a significantly lower cost compared to the heavy penalties of the main Act.

### 8.3 Foreign Asset Value:

When dealing with foreign assets, the "value" is the most critical figure because it determines whether you fit into the scheme's limits (₹1 Crore or ₹5 Crore) and how much tax you must pay.

#### The Valuation Date

For the purpose of this scheme, the value of the undisclosed foreign asset is **determined as of March 31, 2026**. This means that even if you bought a stock or property ten years ago for a small amount, its value for the declaration will be its Fair Market Value (FMV) as of this specific date in 2026.

#### How "Fair Market Value" (FMV) is Determined

The calculation methods vary depending on the type of asset you are disclosing:

- ❖ **Bank Accounts:** The value is the sum of all deposits made into the account since it was opened. You cannot simply use the balance as of March 31, 2026; the tax is calculated on the total quantum of funds that passed through the account which were never taxed in India.

- ❖ **Shares and Securities:** For listed stocks (like US tech stocks or ESOPs), the FMV is typically the quoted price on the foreign stock exchange as of the valuation date.
- ❖ **Immovable Property:** The value is either the cost of acquisition or the current market price (determined by an authorized valuer), whichever is higher.
- ❖ **Insurance Policies:** The value is the total premium paid up to the date of valuation.

### Currency Conversion Rules

Since these assets are held in foreign currency (USD, EUR, GBP, etc.), they must be converted into Indian Rupees (INR).

- ❖ The rate used is the Telegraphic Transfer Buying Rate (TTBR) of the State Bank of India (SBI).
- ❖ The conversion must be done using the rate applicable on the valuation date (March 31, 2026).

### The "Deemed Disclosure" Rule

One significant clarification in the 2026 Budget is the continuity of disclosure. If you disclose an asset under this scheme and pay the required fee/tax, it is "deemed" to be disclosed for all subsequent years. You don't have to worry about penalties for the years between when you acquired it and 2026, as long as you continue to report it in your ITR moving forward.

### Payment Timeline

Once you file your declaration:

- ❖ The Tax Department will communicate the final amount payable by the end of the month in which you filed.
- ❖ You must pay the amount within two months of receiving that order.
- ❖ If you miss that deadline, a 1% monthly interest is charged for a maximum extension of another two months. If you still don't pay, the declaration becomes void.

### 8.4 Permanent relaxation for "micro" foreign assets:

In addition to this time-bound scheme, the Budget also introduced a permanent relaxation for "micro" foreign assets. Residents will no longer face criminal prosecution for failing to disclose non-immovable foreign assets—such as small bank balances or a few foreign shares—if their total value is under ₹20 Lakh. **This particular provision is applied retrospectively from October 1, 2024, ensuring that minor, historic oversights by small taxpayers are permanently decriminalized.**

### 8.5 Persons who are in-eligible for the scheme:

The following groups and scenarios are **not eligible** for the scheme:

#### ➤ High-Value Asset Holders

The most direct disqualification is based on the monetary value of the assets. If your holdings exceed the "small taxpayer" thresholds, you cannot opt for this scheme:

- ❖ **For Category A (Undisclosed Income/Assets):** If the aggregate value of the undisclosed foreign income and assets exceeds **₹1 Crore**, you are ineligible.

- ❖ **For Category B (Technical Reporting Errors):** If you already paid taxes but failed to report the asset in Schedule FA, and the asset value exceeds **₹5 Crore**, you cannot use this scheme.

➤ **Cases Involving Serious Financial Crimes**

The scheme is a "compliance correction" tool, not a laundry service for illegal funds. It strictly excludes:

- ❖ **Proceeds of Crime:** Assets derived from criminal activities, money laundering, or any offense covered under the **Prevention of Money Laundering Act (PMLA), 2002**.
- ❖ **Serious Economic Offenses:** Individuals being prosecuted under the **COFEPOSA** (Conservation of Foreign Exchange and Prevention of Smuggling Activities Act), the **Unlawful Activities (Prevention) Act**, or the **Narcotic Drugs and Psychotropic Substances (NDPS) Act**.

➤ **Taxpayers Already Under Active Enforcement**

If the tax department has already "caught" the non-disclosure before you volunteer it, you generally cannot seek shelter under the scheme:

- ❖ **Completed Assessments:** If a probe under the **Black Money Act (BMA), 2015** has already been completed for those specific assets, the scheme does not apply.
- ❖ **Pre-existing Prosecution:** If the government has already launched criminal prosecution against you for those foreign assets before the date of declaration, you are disqualified.
- ❖ **Note on Pending Assessments:** Interestingly, unlike some previous schemes, FAST-DS 2026 may allow participation even if certain BMA proceedings are *pending*, provided no final order has been passed or prosecution launched.

➤ **Non-Residents and "RNORs"**

The scheme is specifically for **Resident and Ordinarily Resident (ROR)** individuals.

- ❖ **Non-Residents (NRIs):** Since NRIs are not required to report their foreign assets in Indian tax returns, they don't need this scheme.
- ❖ **RNORs (Resident but Not Ordinarily Resident):** Typically, those who have recently returned to India (for the first 2-3 years) are exempt from reporting foreign assets and thus would not fall under the purview of this scheme's relief.

➤ **False or Incomplete Disclosures**

If a taxpayer attempts to use the scheme but provides **incomplete or false information** regarding the source or value of the asset, the immunity is not granted. The disclosure must be "full and true" to be valid.



## 9. Taxation of Sovereign Gold Bonds (SGBs)

### 9.1 Existing Law (Until March 31, 2026)

Under the current regime, Sovereign Gold Bonds (SGBs) are one of the most tax-efficient assets in India. The law provides a unique **blanket exemption** on capital gains for individual investors. If an individual holds the bond until its 8-year maturity, the entire profit—the difference between the purchase price and the redemption price—is **completely tax-free**. Crucially, the current law does not strictly distinguish between those who bought the bonds directly from the RBI and those who bought them later from the stock market; as long as you are an individual and hold them until the RBI redeems them, the gains are exempt under Section 47(viic) of the Income Tax Act.

### 9.2 Taxation if Sold Before Maturity

If you choose to sell your SGBs on the stock exchange before they mature, the "tax-free" benefit does not apply. In this case, the gains are treated as **Capital Gains**:

- ❖ **Short-term (Held for < 12 months):** Profits are added to your total income and taxed at your applicable **income tax slab rate**.
- ❖ **Long-term (Held for > 12 months):** Profits are taxed at a flat rate of **12.5% without indexation** (following the simplified capital gains structure introduced in recent years).
- ❖ **Interest Income:** The 2.5% annual interest paid by the government is always taxable. It is treated as "Income from Other Sources" and taxed at your slab rate. No TDS (Tax Deducted at Source) is applied to this interest.

### 9.3 The Core Change in Budget 2026

The Finance Bill 2026 proposes that the exemption from capital gains tax at maturity will now be available only to individual investors who subscribed to the bonds during the original RBI issuance and have held them continuously until redemption. This means the "blanket" tax-free status that many assumed applied to all SGB holders has been withdrawn. If you purchased SGBs from the stock exchange (secondary market) or through a transfer from someone else, any profit you make at the time of maturity will now be subject to capital gains tax starting from April 1, 2026.

### 9.4 Tax Treatment of SGBs after the amendment

The taxation of SGBs is now divided into three distinct categories based on how you acquired the bonds and how long you hold them:

- ❖ **Original Subscribers (Held to Maturity):** If you bought the bonds directly from the government during the initial subscription window and hold them for the full 8-year tenure, your capital gains remain **100% tax-free**. This is the only scenario where the exemption still applies.
- ❖ **Secondary Market Buyers:** If you bought SGBs on a stock exchange, your gains at maturity are now **taxable**. Long-term capital gains (LTCCG) for these bonds are typically taxed at **12.5% without indexation** (if held for more than 12 months), while short-term gains are taxed at your applicable income tax slab rates.
- ❖ **Premature Redemption/Exit:** If you sell your bonds on the exchange before maturity, or opt for the RBI's early redemption window (available after 5 years), the gains are **taxable** for

everyone—even original subscribers. The tax rate will depend on your holding period (Short-term vs. Long-term).

## **10. Buy back of Shares:**

The Union Budget 2026 has introduced a significant overhaul to the taxation of share buybacks, effectively reversing the "deemed dividend" treatment established in 2024. This change aims to simplify the tax framework for retail investors while curbing tax arbitrage by promoters.

### **10.1 Current Provisions (Effective until March 31, 2026)**

Under the rules introduced in October 2024, the entire consideration received by a shareholder from a buyback is treated as "**deemed dividend**" and taxed according to the shareholder's applicable income tax slab rates (which can be as high as **35.88%** including surcharge and cess). While the proceeds are taxed as dividends, the original cost of acquiring those shares is recorded as a **capital loss**. This often results in a "phantom loss" trap, where small investors pay high taxes on the receipt but cannot immediately use the capital loss unless they have other capital gains to offset it.

### **10.2 Proposed Amendments in Budget 2026**

The Budget 2026 proposes to move buyback taxation from the dividend head to the "**Capital Gains**" head, effective for buybacks occurring on or after **April 1, 2026**. This restoration of the capital gains treatment means that only the actual profit (Buyback Price minus Cost of Acquisition) will be subject to tax.

For **minority and retail shareholders**, this is a major relief as they will now pay:

- ❖ **12.5%** on Long-Term Capital Gains (LTCG) for shares held over 12 months.
- ❖ **20%** on Short-Term Capital Gains (STCG) for shares held for 12 months or less.

### **10.3 Specific Provisions for Promoters**

To prevent promoters from using buybacks as a tax-efficient way to extract profits instead of paying dividends, the Budget has introduced a differential, higher tax rate for them:

- ❖ **Domestic Corporate Promoters:** Will face an effective tax rate of **22%** on gains.
- ❖ **Non-Corporate/Other Promoters:** Will face an effective tax rate of **30%** on gains.

### **10.4 Meaning of Promoter:**

The proposed amendment distinguishes promoters based on two primary criteria:

#### **1. Legal Classification (Status-Based)**

The Budget refers to existing definitions to identify promoters for both listed and unlisted companies:

- ❖ **For Listed Companies:** It adopts the definition provided under the SEBI (Issue of Capital and Disclosure Requirements) Regulations. This includes anyone named as a promoter in the company's filings or who exercises control over the company.
- ❖ **For Unlisted Companies:** It refers to Section 2(69) of the Companies Act, 2013, which defines a promoter as a person named in the prospectus/annual return or who has control over the affairs of the company.

## 2. The 10% Threshold (Percentage-Based)

To prevent individuals from avoiding the "Promoter" label while still holding significant sway, the Budget 2026 introduces a specific anti-abuse rule:

- ❖ Any shareholder holding more than 10% of the shares (directly or indirectly) of the company conducting the buyback will be classified as a "promoter" for the purposes of this higher tax liability.
- ❖ This effectively means even a large Private Equity fund or a High Net-worth Individual (HNI) who isn't technically part of the "Promoter Group" in SEBI filings could be taxed at the higher rate if their stake exceeds 10%.

### Comparison Table

Feature	Current Regime (Pre-April 2026)	Proposed Regime (Post-April 2026)
Nature of Income	Deemed Dividend	Capital Gains
Taxable Amount	Entire consideration received	Only the gain (Proceeds - Cost)
Tax Rate (Retail)	Slab rates (up to ~36%)	12.5% (LTCG) / 20% (STCG)
Tax Rate (Promoter)	Slab rates	22% (Corporate) / 30% (Others)
Cost of Acquisition	Treated as a separate capital loss	Deducted from proceeds to find gain



## 11. Tax benefits to Cloud Storage and Data Centre companies:

In the Union Budget 2026, the Indian government made a massive play to position India as the global "backbone" for cloud and AI infrastructure. The center piece of these reforms is a long-term tax holiday designed to attract hyper scalars like Microsoft, Google, and Amazon.

### 11.1. The 21-Year Tax Holiday (Viksit Bharat Push)

The most significant announcement is a **tax holiday until March 31, 2047**, for foreign companies providing cloud services.

- ❖ **Eligibility:** The benefit applies to foreign entities incorporate outside India that provide cloud services (storage, computing, or software) to **global customers** using data centers located in India. It means that the foreign company **must not own or operate** the physical infrastructure (servers, land, or building) of the data center itself. It must be a *user* of the data center services. The data center providing the services must be an **Indian company**.
- ❖ **The "Reseller" Condition:** To ensure domestic participation, these foreign companies must serve their **Indian customers** through a local Indian reseller entity, which remains subject to standard Indian taxation. Income earned from providing cloud services to **global (non-Indian) customers** using Indian data centers is **100% tax-exempt**. Any services provided to **Indian customers** must be routed through a **domestic Indian reseller entity**. This reseller entity remains fully taxable in India under standard corporate rates. The foreign parent cannot bill Indian customers directly and claim the holiday on that specific revenue.
- ❖ **MeitY Notification: Certified Infrastructure:** Not every server room qualifies. The foreign company must utilize a data center that has been specifically **notified by the Ministry of Electronics and Information Technology (MeitY). Infrastructure Standards:** To be notified, the data center typically needs to meet certain "Hyperscale" or "AI-ready" benchmarks, including high energy efficiency and specific capital outlay thresholds.

### 11.2. Expanded Safe Harbour Rules

To reduce litigation and provide "transfer pricing" certainty, the government introduced new Safe Harbour provisions:

- ❖ **Data Centre Services:** A safe harbour of **15% on cost** has been proposed for cases where an Indian data centre provider is a related entity to the foreign cloud company.
- ❖ **IT Services Threshold:** The threshold for availing safe harbour in IT services has been raised from **₹300 crore to ₹2,000 crore**.
- ❖ **Unified Margin:** All IT services (Software, ITeS, KPO, and R&D) are now clubbed under one category with a common safe harbour margin of **15.5%**.

If taxpayer opts for the Safe Harbour, transfer price is "accepted" automatically via the new automated, rule driven process. It means taxpayer effectively bypass the TPO's 60 day order cycle because there will not be any traditional scrutiny.

However, if taxpayer do not for the Safe Harbour, taxpayer will fall back into the standard audit cycle, where the **60-day rule** ensures that the TPO doesn't rush an order at the last minute, giving the cloud

company time to review the findings before the final tax assessment is signed off. In the budget 2026, it provided a critical clarification on the timeline for passing a **Transfer Pricing Order**.

- ❖ **The Rule:** The Transfer Pricing Officer (TPO) must pass their order at least **60 days before the deadline** for the Assessing Officer (AO) to complete the final assessment.
- ❖ **The 2026 Clarification:** Previously, there was ambiguity about how to calculate these 60 days (whether to count the day of the order, the deadline day, etc.). The 2026 Budget clarified that the 60 days must be calculated **excluding** the date of the assessment deadline, providing a hard "cool-off" period.

### 11.3 Contract Manufacturing:

Budget 2026 contains a major "twin-benefit" package specifically for **contract manufacturing** (often referred to as toll manufacturing) carried out in **customs bonded warehouses**.

The government has introduced these measures to make India a "plug-and-play" hub for global electronics giants who want to manufacture in India without the tax risks of owning the assets themselves.

#### 5-Year Income Tax Exemption for Foreign Companies

The most significant change is the introduction of a **5-year tax holiday** (effective from April 1, 2026, until Tax Year 2030-31) for foreign companies that supply manufacturing assets to India.

- ❖ **The Exemption:** Any income earned by a foreign company from providing **capital goods, equipment, or tooling** to an Indian contract manufacturer is now **100% exempt from income tax**.
- ❖ **The "Bonded" Requirement:** This exemption only applies if the Indian contract manufacturer is located in a **customs bonded area** (under Section 65 of the Customs Act, 1962).
- ❖ **Ownership & Control:** The foreign company can retain ownership of the machines/tools while the Indian manufacturer maintains operational control to produce the goods on their behalf.

#### Zero Customs Duty on Capital Goods

To further lower the entry barrier, the Budget has extended **Basic Customs Duty (BCD) exemptions** on the import of capital goods for high-tech sectors:

- ❖ **Electronics & Batteries:** Exemption for capital goods used to manufacture Lithium-Ion cells for both batteries and **Battery Energy Storage Systems (BESS)**.
- ❖ **Critical Minerals:** BCD is exempted for capital equipment required for processing critical minerals, which is essential for the semiconductor and EV supply chains.

#### Safe Harbour for Component Warehousing

For the first time, a **Safe Harbour** has been introduced for non-residents who store components in Indian bonded warehouses to support "Just-in-Time" logistics.

- ❖ **The Rule:** If a foreign company stores electronic components in a bonded warehouse, the Indian tax authorities will accept a **profit margin of only 2% of the invoice value**.
- ❖ **Tax Impact:** This results in an effective tax rate of approximately **0.7%**, which is significantly lower than the rates in competing manufacturing hubs like Vietnam or China.

### Transformation of the MOOWR Scheme

The Budget 2026 proposes moving the **MOOWR (Manufacturing and Other Operations in Warehouse Regulations)** framework from an "officer-centric" to an "operator-centric" system.

- ❖ **Self-Declaration:** Companies will now use self-declarations and electronic tracking rather than needing constant physical sign-offs from customs officers.
- ❖ **Risk-Based Audit:** Physical inspections are being replaced with data-driven, risk-based audits to speed up the movement of capital goods into the facility.



## 12. Key Exemptions and Reliefs for Individuals:

- ❖ **Motor Accident Claims:** Interest awarded by Motor Accident Claims Tribunals to individuals is now **fully exempt from income tax**. Consequently, no TDS will be deducted on such interest payments.
- ❖ **Land Acquisition:** Any income/compensation received by an individual or HUF for the **compulsory acquisition of land** under the RFCTLARR Act (Right to Fair Compensation) is now specifically exempt from tax.
- ❖ **Sovereign Gold Bonds (SGB):** The tax exemption on redemption at maturity is now restricted to **original subscribers** (primary market). If you bought SGBs from the secondary market, the gains will be taxable at maturity.
- ❖ **Global Talent Exemption:** A new **5-year tax exemption** on foreign-sourced income is proposed for non-resident experts visiting India under government-notified schemes, provided they were non-residents for the preceding five years.

## 13. Changes in Deductions:

**The budget focuses on cleaning up "tax leakages" while providing relief to specific groups:**

- ❖ **Removal of Interest Deduction on Dividends:** An important change for investors is the **withdrawal of the deduction** for interest expenditure against dividend and mutual fund income. Previously, you could deduct up to 20% of your dividend income if you had taken a loan to invest. This is no longer allowed, meaning the entire dividend amount is now taxable at your slab rate.
- ❖ **Inter-Cooperative Dividend:** To boost the cooperative sector, a new deduction is proposed for **inter-cooperative society dividend income**. This allows a cooperative society to deduct dividends received from another cooperative, provided that income is distributed further to its own members.
- ❖ **Standard Deduction & 87A Rebate:** These remain unchanged from the 2025 reforms. Salaried individuals continue to get a **₹75,000 standard deduction**. The Section 87A rebate also stays at **₹60,000**, ensuring that those with a net taxable income of up to **₹12 lakh** (or ₹12.75 lakh for salaried employees) pay **zero tax**.
- ❖ **Senior Citizen Relief:** The deduction limit for senior citizens under Section 80TTB (on interest from banks/post offices) has been effectively increased from **₹50,000 to ₹1 lakh** in certain contexts to support post-retirement financial security.
- ❖ **Employee PF Contributions:** The biggest changes relate to **Employer Contributions** and **Compliance Deadlines**, while the core tax-free limits for employees remain largely the same.

### ➤ **Removal of the 12% Salary Cap (for Taxation)**

Budget 2026 has **removed this 12% restriction**. Employer contributions are now only governed by the **overall annual cap of ₹7.5 lakh**. As long as the total of your employer's contribution to PF, NPS, and Superannuation stays under ₹7.5 lakh per year, it is tax-free, even if the PF portion alone exceeds 12% of your basic salary.

➤ **Deadline Extension**

This is a significant win for employers that indirectly helps ensure employee accounts are credited correctly.

❖ **The Change:** Previously, if an employer delayed depositing your PF contribution even by one day past the "due date" under the PF Act (usually the 15th of the next month), they would lose the tax deduction forever.

❖ **The New Rule:** Employers can now claim a tax deduction for employee PF contributions as long as they deposit them by the **Income Tax Return (ITR) filing due date**. This reduces litigation and encourages employers to clear arrears without facing permanent tax penalties

➤ **No Change to the ₹15,000 Wage Ceiling**

Despite heavy speculation, the Budget did not increase the statutory wage ceiling of ₹15,000 (the basic salary limit for mandatory PF coverage)



## Customs

In the Union Budget 2026, Finance Minister Nirmala Sitharaman focused on rationalizing the customs duty structure to support domestic manufacturing (Make in India), encourage exports, and provide relief in the healthcare and consumer sectors.

A significant theme this year was the reduction of duties on "ease of living" items and critical minerals, while increasing duties on low-cost finished imports to protect MSMEs.

### Comparative Analysis of Basic Customs Duty (BCD) Changes

The following table summarizes the key shifts from the existing rates (FY 2025-26) to the new rates proposed in Budget 2026 (FY 2026-27).

Product Category	Existing Rate (2025)	Budget 2026 Rate	Impact
Personal Use Imports	20%	10%	Cheaper for individuals
Cancer Drugs (17 types)	5% - 10%	Nil	Major relief for patients
Microwave Oven Parts	7.5% - 15%	Nil	Boost for domestic assembly
Critical Minerals (Monazite)	2.5%	Nil	Support for high-tech mfg
Sodium Antimonate (Solar Glass)	7.5%	Nil	Solar energy push
Nuclear Power Project Goods	7.5%	Nil (Extended to 2035)	Energy security
Civil/Defence Aircraft Parts	Applicable Rates	Nil	MRO and Aviation boost
Umbrellas	20%	20% or ₹60/piece*	Discourages cheap imports
Umbrella Parts/Accessories	10%	10% or ₹25/kg*	Protections for MSMEs
Potassium Hydroxide	Nil	7.5%	Higher cost for soaps/chems
Zoo Animals & Birds	Nil	30%	Increased cost

Product Category	Existing Rate (2025)	Budget 2026 Rate	Impact
ATM/Cash Dispenser Parts	Applicable Rates	Increased	Higher cost for banking infra
Coffee Vending/Brewing Machines	Exempt	Exemption Removed	Costlier for commercial use
*Whichever is higher.			

### Baggage Rules

The Union Budget 2026 has introduced a major overhaul of travel regulations by notifying the Baggage Rules, 2026. These new rules, which came into effect on February 2, 2026, replace the decade-old 2016 framework to better align with modern travel habits and inflation.

The most significant change is the move toward a more "trust-based" and digital system, including the removal of certain value caps that have long been a headache for travelers.

### Increased General Duty-Free Allowance

The monetary limit for goods you can bring into India duty-free has been significantly raised for the first time in years.

Passenger Category	New Limit (2026)	Old Limit (2016)
Indian Residents	₹75,000	₹50,000
Tourists of Indian Origin	₹75,000	₹50,000
Foreigners (Non-Tourist Visa)	₹75,000	₹50,000
Foreign Tourists	₹25,000	₹15,000

**Note:** These allowances do not apply to passengers entering India via **land routes**. Additionally, items like firearms, tobacco (over 100 sticks), and alcohol (over 2 liters) remain excluded from these general limits.

### Major Relief on Jewellery (Value Cap Removed)

In a massive win for NRIs and returning residents, the government has scrapped the rupee value cap on jewellery. Previously, even if you were under the weight limit, high gold prices often pushed you over the value limit (e.g., ₹1 lakh). Now, it is strictly weight-based:

**Female Passengers:** Up to 40 grams (no value limit).

**Other Passengers:** Up to 20 grams (no value limit).

**Eligibility:** Applies to those who have resided abroad for more than one year.

## **Lower Customs Duty on Excess Goods**

If you exceed your free allowance, the tax hit is now lighter. The Budget has proposed reducing the Basic Customs Duty (BCD) on goods imported for personal use:

**New Rate: 10%**

**Old Rate: 20%**

This makes bringing in high-end gadgets or luxury items from abroad (like the latest smartphones) noticeably cheaper.

### **Other:**

**Laptops:** The rules now explicitly allow the duty-free import of one laptop/notebook for all passengers above 18 years of age.

**Transfer of Residence (TR):** For those moving back to India, the duty-free limits for personal effects have been doubled:

**Stayed 1–2 years: ₹3 lakh.**

**Stayed >2 years: ₹7.5 lakh.**

**Digital Declarations:** Travelers are encouraged to use the revamped Atithi App or portal for electronic advance declarations, generating a QR code to speed up airport clearance.

**Transparency:** Customs officers at international airports are now required to use body-worn cameras during baggage examinations to ensure fair treatment.

## **Analysis of Key Trends**

### **1. Support for Strategic Sectors**

The government has moved aggressively to waive duties on Critical Minerals and Nuclear Energy components. By reducing the BCD to Nil on minerals like monazite and capital goods for lithium-ion cell manufacturing, the budget aims to secure the supply chain for the energy transition and EV sectors.

### **2. Healthcare and "Ease of Living"**

**Medicines:** The exemption of BCD on 17 critical cancer drugs (including Ribociclib and Venetoclax) and the addition of 7 rare diseases to the duty-free list are massive social welfare measures.

**Individual Importers:** The 50% cut in duty on personal imports (from 20% to 10%) is a direct win for consumers who order goods from abroad or bring them through baggage.

### **3. Protectionism for MSMEs**

To counter the flood of low-priced imports, the government shifted the duty structure for umbrellas. Instead of just a percentage (20%), they added a minimum floor price (₹60 per piece). This ensures that even ultra-cheap items pay a significant entry tax, protecting Indian small-scale manufacturers

#### 4. Export Competitiveness

##### For the Seafood and Leather industries:

Duty-free import limits for inputs used in seafood processing were increased from 1% to 3% of the FOB value

Duty-free facilities were extended to shoe uppers, helping leather exporters compete globally (especially against high tariffs in other markets)

#### 5. Aviation & Defense

By making aircraft parts and engines duty-free for both civilian and defense MRO (Maintenance, Repair, and Overhaul) units, the government is positioning India to become a global hub for aerospace servicing.



## **Goods and Services Tax Law**

Budget 2026 proposes targeted GST amendments to Sections 15(3)(b) and 34(1) of the CGST Act, Section 54(6) of the CGST Act, and Section 13(8)(b) of the IGST Act, addressing longstanding litigation, compliance burdens, and refund delays. These changes, effective post-enactment, stem from 56<sup>th</sup> GST Council recommendations to rationalize valuation, credit notes, refunds, and place of supply rules. This amendment will come into effect from the date when the same will be notified concurrently, as far as possible, with the corresponding amendments to the similar Acts passed by the States & Union territories with legislature.

### **Section 15(3)(b) CGST Act - Valuation of Supply and Post-Supply Discounts**

The amendment to Section 15(3)(b) of the CGST Act represents one of the most significant changes in the GST valuation framework since its inception. Under the current legal regime, post-supply discounts can be excluded from taxable value only when such discounts are established in accordance with an agreement entered into at or before the time of supply, are specifically linked to relevant invoices, and the recipient reverses the proportionate Input Tax Credit.

This restrictive framework has created substantial litigation and practical difficulties for businesses across sectors. The requirement of a prior invoice-specific agreement has proven particularly problematic because modern commercial arrangements frequently involve volume-based rebates, year-end incentives, performance discounts, and loyalty schemes that are determined after the supply based on aggregate turnover, achievement of targets, or other performance metrics.

The proposed amendment fundamentally restructures this provision by allowing exclusion of post-supply discounts from taxable value without requiring a prior invoice-specific agreement. Under the amended provision, suppliers can issue credit notes under Section 34 of the CGST Act for genuine post-supply discounts, provided the recipient reverses the proportionate Input Tax Credit. This change recognizes the commercial reality that many legitimate business discounts cannot be predetermined at the time of supply but are calculated based on subsequent performance, market conditions, or relationship dynamics. The amendment removes the artificial constraint of requiring invoice-specific prior agreements while maintaining adequate safeguards through the credit note mechanism and ITC reversal requirements to prevent revenue leakage.

However, this enhanced flexibility comes with corresponding compliance requirements and operational challenges. Suppliers must establish robust communication systems to inform recipients promptly about discounts and the consequent credit notes, enabling recipients to reverse Input Tax Credit in the correct tax period. Any delay or miscommunication in this process could lead to mismatches between the supplier's output tax reduction and the recipient's ITC reversal, triggering notices, interest demands, and potential disputes.

### **Section 34(1) CGST Act - Credit Notes Mechanism**

The amendment to Section 34(1) of the CGST Act is a consequential change that flows logically from the revised Section 15(3)(b) and is essential for creating a coherent legal framework for handling post-supply discounts. Under the existing provision, Section 34 permits issuance of credit notes in specific circumstances including tax incorrectly charged in the original invoice, deficiency in services, goods returned by the recipient, and post-supply discounts, but only if the conditions stipulated in Section 15(3)(b) are satisfied.

However, the amendment also introduces compliance challenges that businesses must address proactively. Suppliers must accurately report credit notes in Table 9B of GSTR-1 with correct

references to the original invoices, ensuring that the credit note details flow properly through the GST Network. Both parties must reflect the adjustments correctly in their GSTR-3B monthly returns, with suppliers reducing output tax liability and recipients reducing input tax credit. The credit notes must properly auto-populate in the recipient's GSTR-2B to facilitate ITC reversal verification and reconciliation.

### **Section 54 (6) CGST Act - Provisional Refund for Inverted Duty Structure**

Under the current legal framework, businesses facing Inverted Duty Structure can claim refunds of accumulated ITC under Section 54 of the CGST Act, but there is no provision for provisional refunds. The refund application undergoes detailed verification including examination of the inverted duty structure calculation, verification of input tax credit claims, scrutiny of input-output ratios, and validation that the applicant is not receiving undue benefits. This verification process typically takes three to six months, and in some cases even longer when queries are raised or additional documents are sought. During this period, the claimed refund amount remains blocked, creating severe liquidity constraints for businesses operating on thin margins.

The proposed amendment introduces a provision for sanctioning 90% of the claimed refund amount on a provisional basis, similar to the existing provisional refund mechanism available for zero-rated supplies under Section 54(6). This means that instead of waiting for complete verification before receiving any refund, applicants will receive 90% of their claimed amount within a much shorter timeframe, likely 7 to 10 days based on the current processing timelines for provisional refunds in zero-rated supply cases. The final refund amount will be adjusted against this provisional release, with any excess provisional amount recovered with interest if the final claim is rejected or reduced.

### **Section 54(14) of the CGST Act - Removal of Minimum Refund Threshold for Exports**

Under the current Section 54(14), refund claims below rupees one thousand for zero-rated supplies including exports are not admissible for processing. This threshold, while perhaps intended to reduce administrative burden by filtering out very small claims, has created inequitable outcomes particularly affecting micro, small, and medium enterprises, artisans, and exporters with occasional or small-value export transactions.

Post amendment, in respect of refund of tax claimed on account of goods exported out of India with payment of tax, the restriction of minimum refund amount of Rs. 1,000 prescribed under Section 54(14) has been removed.

Accordingly, refund applications for tax paid on goods exported out of India can be filed and processed irrespective of the refund amount, subject to fulfilment of other conditions prescribed under the CGST Act and Rules.

### **Section 13(8)(b) IGST Act - Place of Supply for Intermediary Services**

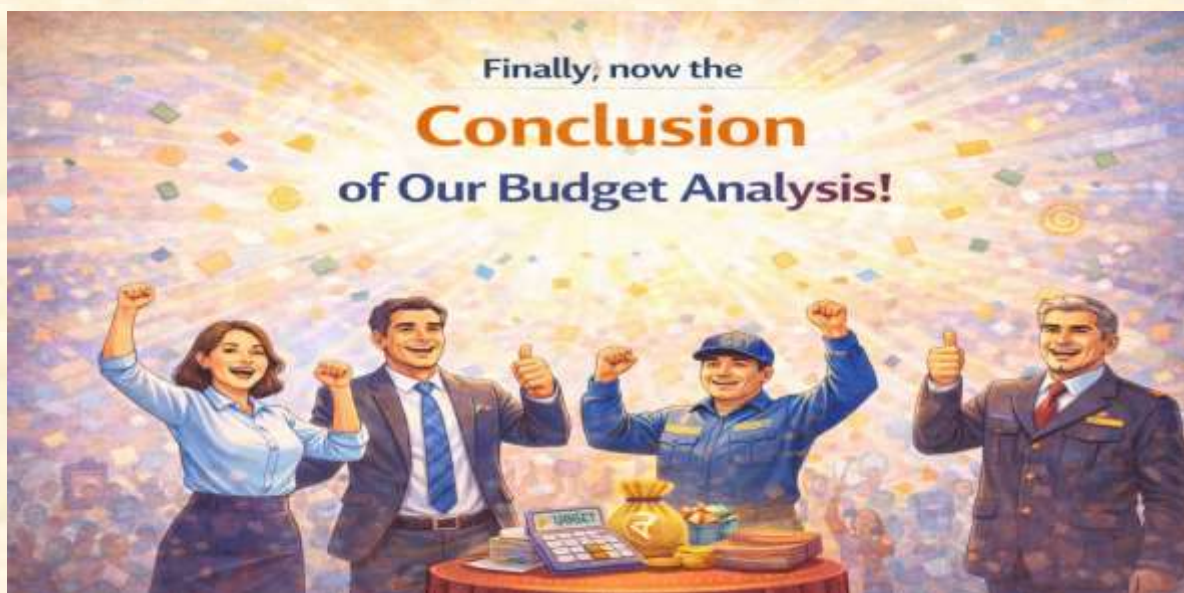
Under the current legal framework, Section 13(8)(b) deems the place of supply for intermediary services as the location of the supplier of services. This means that when an Indian BPO firm or call center or technical support provider acts as an intermediary arranging or facilitating services between a foreign client and end customers, the place of supply is deemed to be India where the intermediary is located. Consequently, even though the recipient of the intermediary service is located outside India, the transaction is treated as a domestic supply attracting Integrated GST. This creates an anomalous situation where a service consumed outside India is taxed in India, contradicting the destination principle of taxation. The foreign client pays for intermediary services in foreign currency and uses these services outside India, yet Indian GST is levied, making Indian

intermediaries less competitive compared to intermediaries located in other countries where such services are zero-rated or exempt.

The proposed amendment omits Section 13(8)(b) entirely, which means that the place of supply for intermediary services will now be determined by the default rule in Section 13(2) of the IGST Act, which provides that the place of supply shall be the location of the recipient of services. When an Indian intermediary provides services to a foreign client, the place of supply will be the location of that foreign client, which is outside India. Consequently, such services will qualify as exports of services under Section 2(6) of the IGST Act and will be zero-rated under Section 16, meaning they will attract zero GST. This brings intermediary services in line with the general treatment of service exports under the GST framework.

The implications for export-oriented intermediary service providers are transformative. Indian BPOs, call centers, technical support providers, customer relationship management service providers, insurance intermediaries working for foreign clients, commission agents facilitating international trade, marketing intermediaries promoting foreign products or services, and various other intermediary service providers will now find their services to foreign clients treated as zero-rated exports. This means no IGST will be charged on such services, and the providers can claim refund of GST paid on all domestic inputs including office infrastructure, telecommunications, electricity, equipment, software licenses, and other goods and services used in providing the intermediary services.

The amendment has a flip side for Indian businesses that procure intermediary services from foreign providers. When a foreign intermediary arranges or facilitates services for an Indian recipient, the place of supply under Section 13(2) will be India, making it a taxable import of services. The Indian recipient will be required to pay IGST under the Reverse Charge Mechanism as per Section 5(3) of the IGST Act. While input tax credit will be available if the services are used for business purposes, this creates additional compliance obligations for Indian businesses. Companies that engage foreign recruitment agencies, international insurance brokers, overseas commission agents, or foreign platform intermediaries will need to identify these transactions, value them correctly, pay IGST under reverse charge, and claim input tax credit in their GST returns.



## Conclusion:

The Union Budget 2026–27 is primarily defined by a firm commitment to fiscal consolidation and long-term industrial productivity over short-term populist measures. By narrowing the fiscal deficit target to **4.3% of GDP**, the government is signaling to global markets that India is focused on macroeconomic stability and curbing inflation. This fiscal discipline is paired with a massive **₹12.2 lakh crore capital expenditure** outlay, which continues the trend of building high-quality infrastructure—specifically high-speed rail and dedicated freight corridors—to lower the cost of doing business and attract foreign direct investment.

For the domestic industry, the budget shifts gears from general manufacturing to high-tech sectors like semiconductors, biopharmaceuticals, and rare earth mineral mining. The launch of **ISM 2.0** and the **Biopharma SHAKTI** scheme are clear attempts to move India up the global value chain, moving beyond simple assembly to core research and development. Additionally, the focus on MSMEs through the new **₹10,000 crore SME Growth Fund** aims to bridge the credit gap for small businesses, which are the backbone of employment in the country.

However, the impact on the financial markets and the individual taxpayer is a bit more complex. The hike in **Securities Transaction Tax (STT)** on futures and options, combined with the new tax treatment of share buybacks, represents a move to discourage speculative trading and favor long-term capital formation. While the "common man" saw no changes to income tax slabs, the significant reduction in **TCS (Tax Collected at Source)** for foreign travel and education provides much-needed relief for the middle class. Ultimately, this budget seeks to build a more resilient, "Viksit Bharat" by prioritizing structural reforms and high-tech self-reliance over immediate consumption boosts.

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