DPNC GLOBAL

Comprehensive Analysis on

UNION BUDGET 2026-2027

FOREWORD

Action over ambivalence, reform over rhetoric and people over populism. It is this clear philosophy that defines the Budget for FY 2026-27, presented by the Hon'ble Finance Minister, Ms. Nirmala Sitharaman, on 1st February 2026. This Budget focuses on policies that propels a nation transitioning from stabilization to a high-growth trajectory, consistently delivering a growth rate of over 7%.

The Vision of India as a global leader is no longer a distant aspiration but a performance-driven reality. This Budget is uniquely fuelled by **Yuva Shakti**, inspired by innovative ideas from the Viksit Bharat Young Leaders Dialogue 2026, and is built upon three core **"Kartavyas"** (Duties). The first is to accelerate and sustain economic growth; the second is to fulfill the aspirations of our people; and the third, aligned with *Sabka Sath, Sabka Vikas*, ensures that the dividends of growth reach every community and region.

The "Reform Express" is in full motion, with over 350 reforms rolled out in the last 12 months. The direction of reducing revenue expenditure and prioritising capital expenditure for long term multiplier effect has been well appreciated.

The momentum to boost infrastructure is reflected in the scaling up of manufacturing across seven strategic sectors, including a ₹10,000 crore outlay for **Biopharma** *shakti* and a ₹40,000 crore commitment to **Electronic Components**. The government's focus on **Atmanirbharta** remains a lodestar, building domestic capacity in semiconductors through ISM 2.0 and reducing critical import dependencies including for Critical Minerals which has rightfully gained prominence and prioritisation.

For the corporate sector and MSMEs, the budget offers a robust ecosystem for growth to unlock value. The creation of a **₹10,000 crore SME Growth Fund** aims to nurture "future champions," while the introduction of **'Corporate Mitras'** will help small enterprises meet compliance requirements affordably. Infrastructure remains a high priority, with public capex increased to **₹12.2 lakh crore offering the proven multiplier effect on GDP** and the development of **seven High-Speed Rail corridors** acting as growth connectors between major cities.

Under the newly introduced **Income Tax Act, 2025 with effect from 1st April 2026**, efforts have been taken

FOREWORD

to ease compliances. Key direct tax proposals include easing of procedures, decriminalisation of venial breaches and rationalisation of policy for the convenience of the tax payer.

Extension of time limit to file a revised return by 3 months to 31st March, reduction in **TCS rates** on LRS for overseas tours and education, retrospective amendments to assessment procedures in erstwhile Income Tax Act 1961, penalty proceedings have been clubbed with assessment order to reduce separate penalty proceedings. To further, ease pressure of prosecution under Benami Law a one-time 6-month **Foreign Asset Disclosure Scheme** has been introduced.

In the corporate arena, the **Minimum Alternate Tax (MAT)** has been reduced from 15% **to 14%**. Furthermore, the government has addressed the concerns of minority shareholders by taxing **share buybacks as Capital Gains**, while simultaneously disincentivizing tax arbitrage for promoters through an additional buyback tax.

On the indirect tax front, the government continues to promote export competitiveness and domestic manufacturing. Basic customs duty (BCD) has been exempted for **17 cancer drugs** and components for civilian aircraft manufacturing. To support small businesses, the **₹10 lakh value cap on courier exports** has been removed, opening new global market doors for Indian artisans and start-ups.

Despite global disruptions, the government has remained steadfast on the path of **fiscal consolidation**. By targeting a fiscal deficit of **4.3% of GDP** for FY 2026-27 and aiming for a debt-to-GDP ratio of **50±1% by 2030-31**, the budget balances the need for massive public investment with long-term fiscal stability.

This Budget 2026-27 is a testament to clarity and conviction with focus on key sectors and priorities to address the risk of a world driven by Tariffs, Trials and Tribulations. This budget aptly focuses on productivity, technology as a force multiplier, and the creation of a "Viksit Bharat" where growth is inclusive and capacity is built at every level to protect our nation and all its citizens against the volatile and irrational geo political forces.

We hope you find these summary highlights by our team informative as we continue to navigate this exciting new era of Indian economic history.

- Warm Regards

Team DPNC

Union Budget 2026-27– A Snapshot

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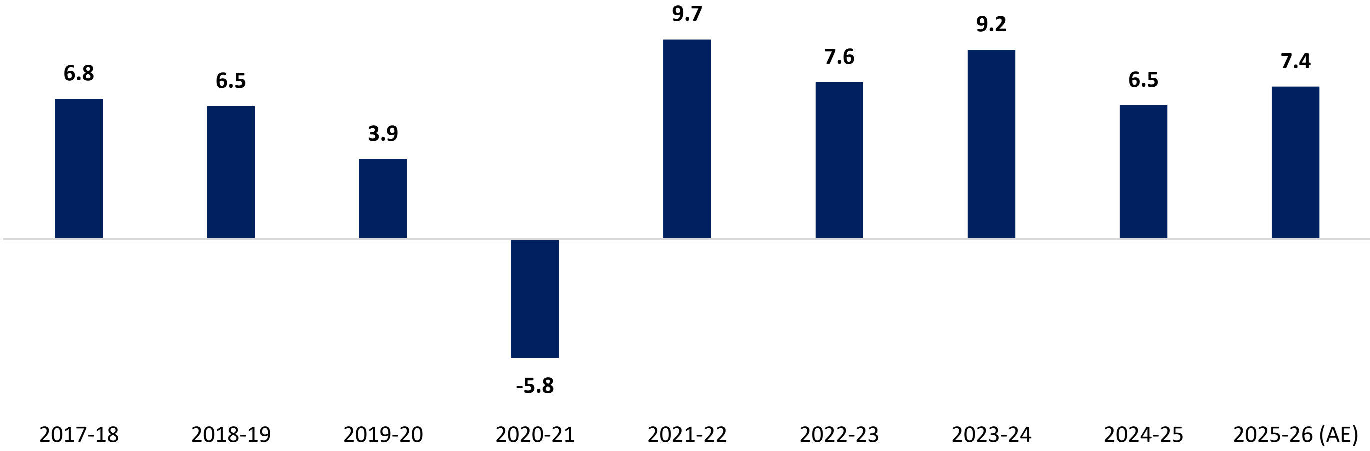
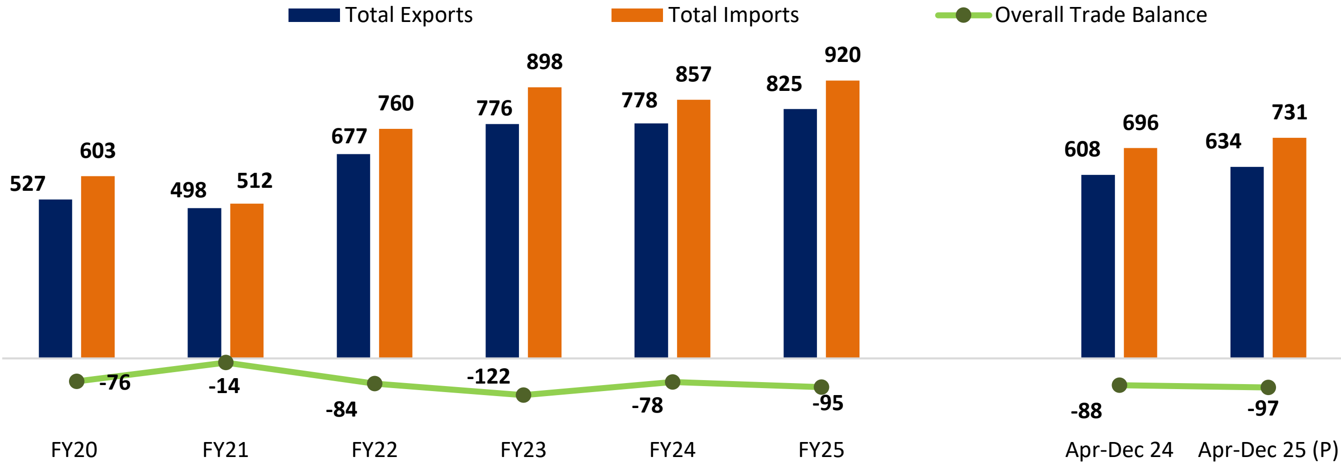
Economic Survey 2025-26

Real Gross Domestic Product Growth %



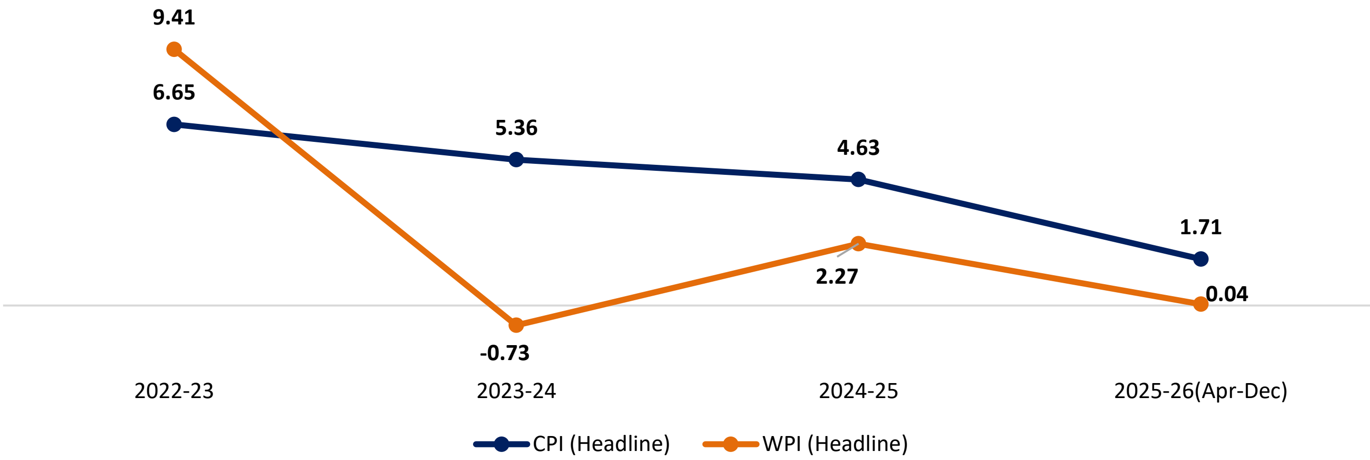
AE - Advanced Estimate

India's total (merchandise and services) trade (USD Bn)



P - Predicted

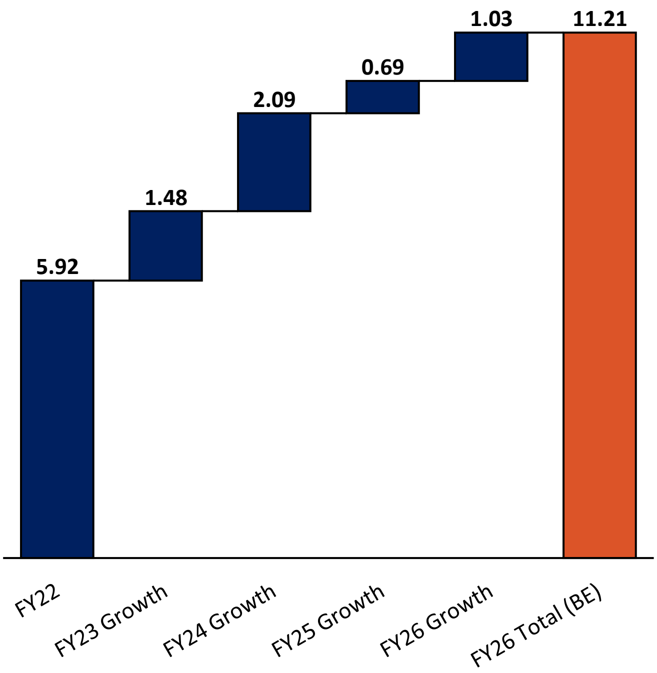
Headline Inflation (WPI and CPI)



CPI – Consumer Price Index
WPI – Wholesale Price Index

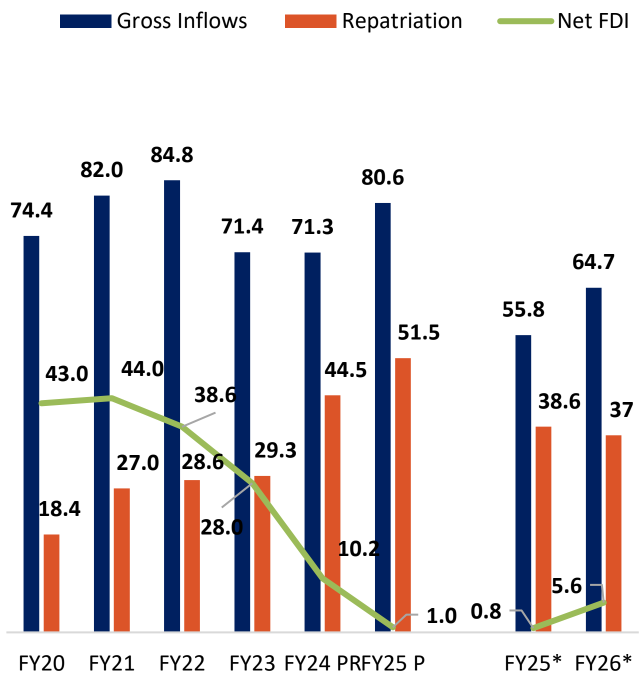
Economic Survey 2025-26

Government Capex Growth over the years (Lakh Crore)



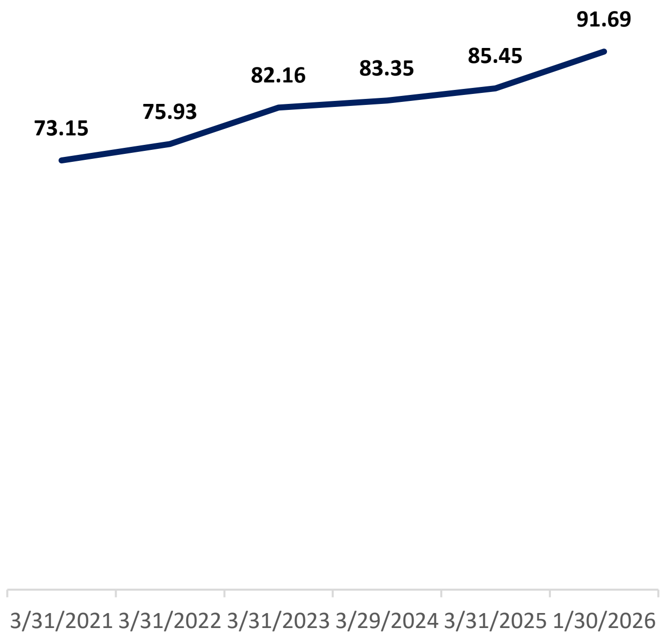
BE – Budget Estimates

Trend in India's FDI (USD Bn)

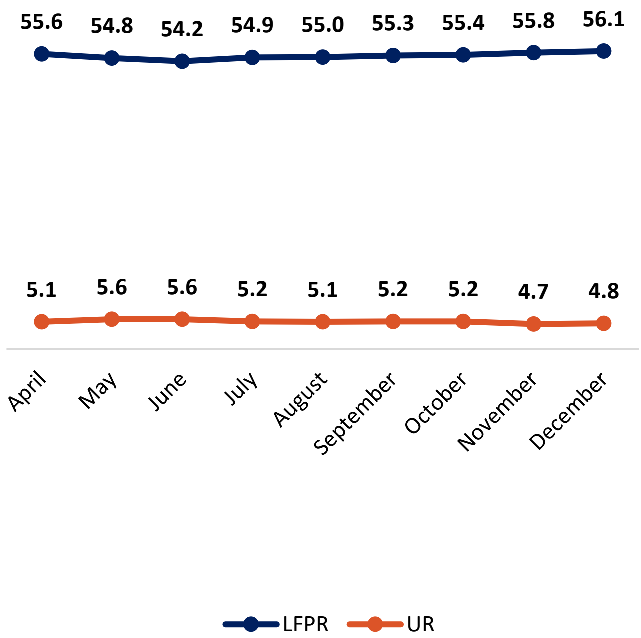


*April-November P – Provisional PR – Provisionally Revised

Value of INR per USD



Employment Data in %

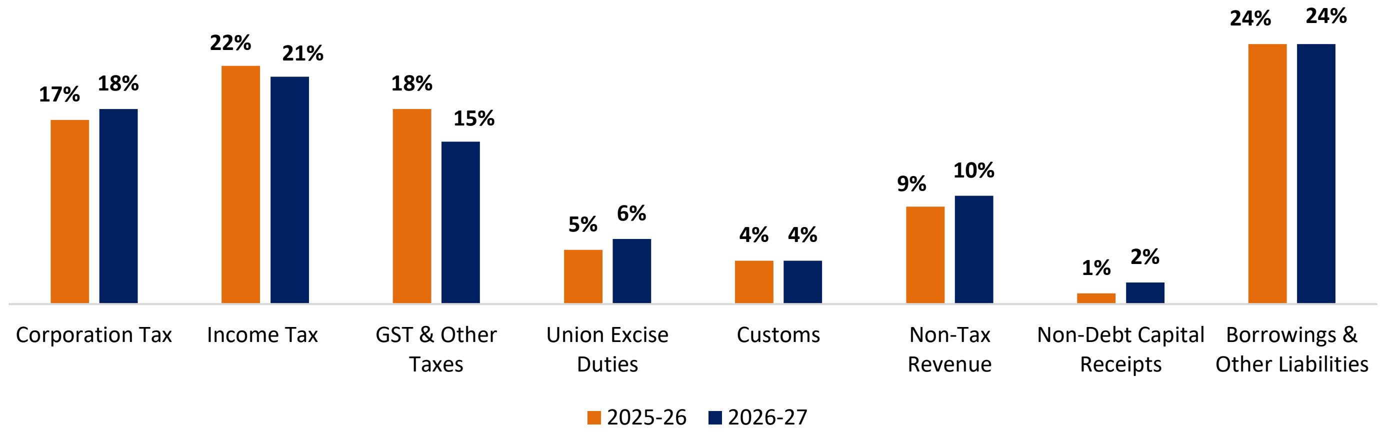


LFPR – Labour Force Participation Rate
UR – Unemployment Rate

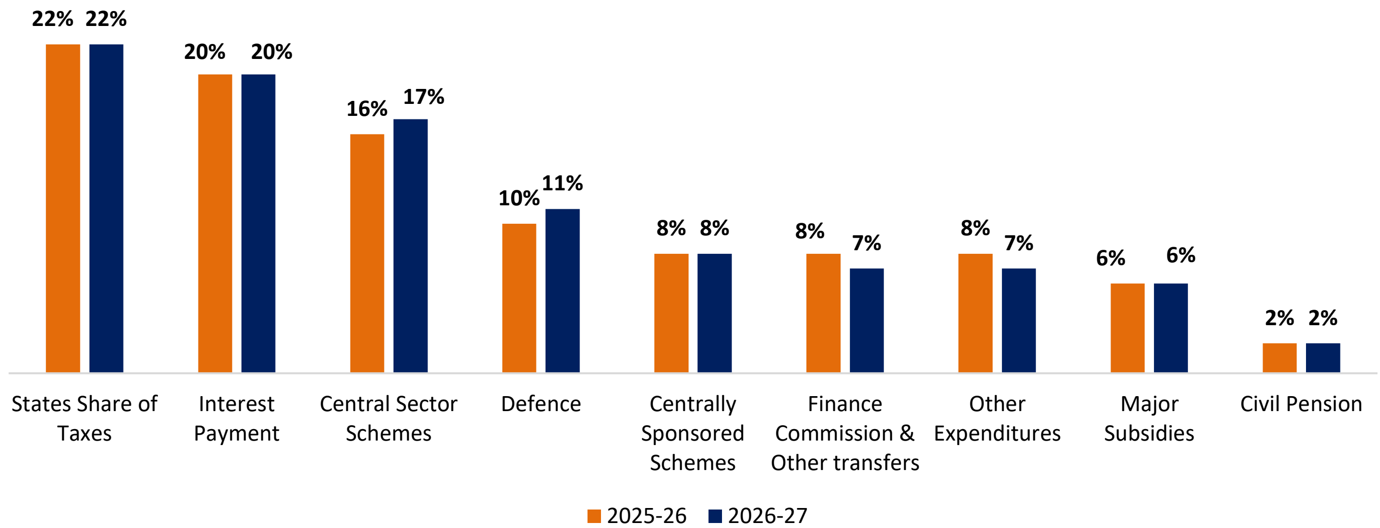
Union Budget 2026-27– A Snapshot

Budget Allocation and Fiscal Summary

Rupee Comes From

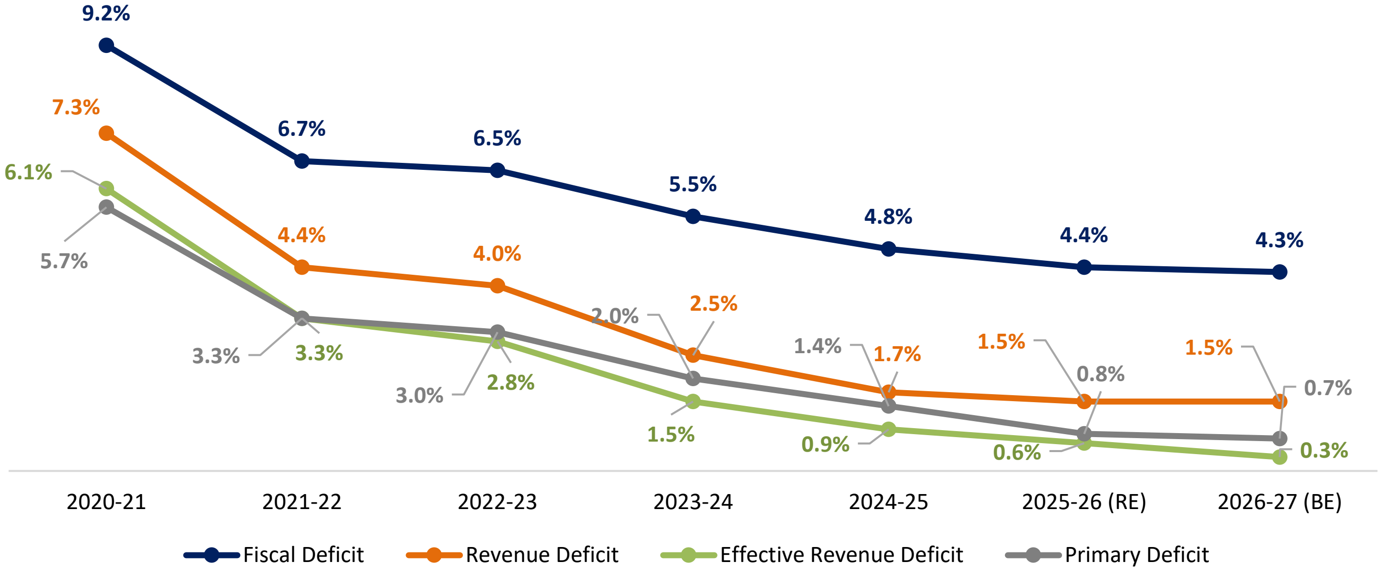


Rupee Goes To



Deficit Trends

As a % of GDP

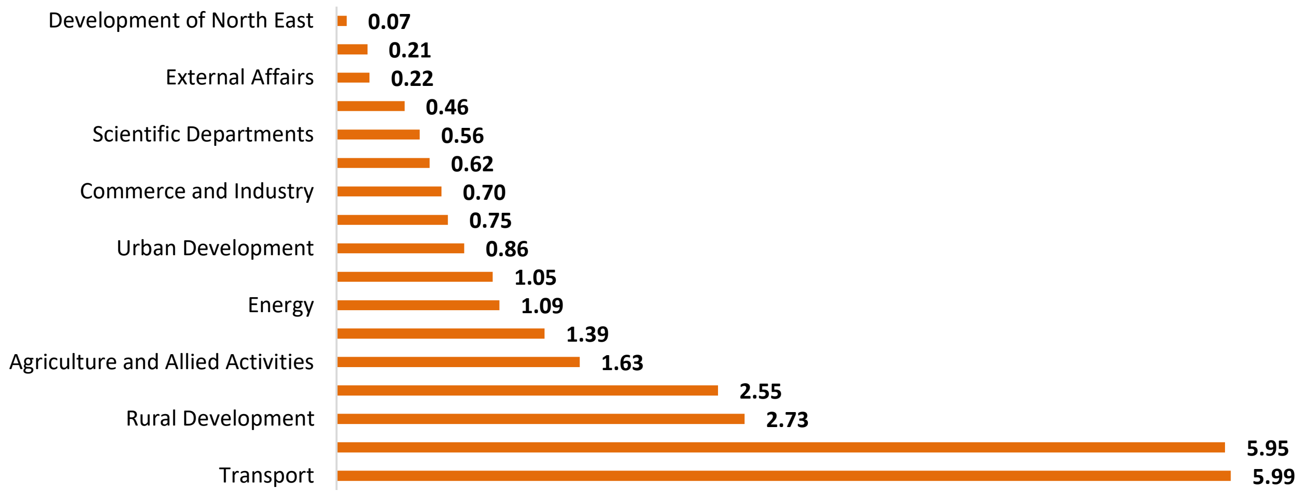


BE – Budget Estimate | RE – Revised Estimate

Source: Budget at a glance

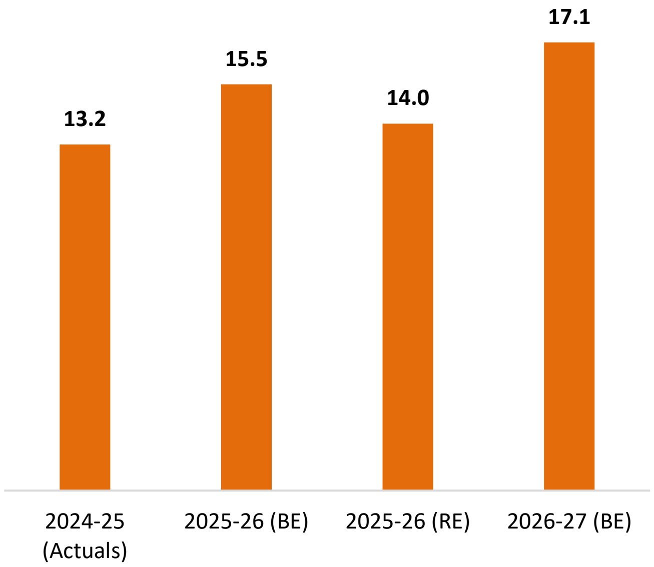
Expenditure of Major Items

In INR Lakh Cr.



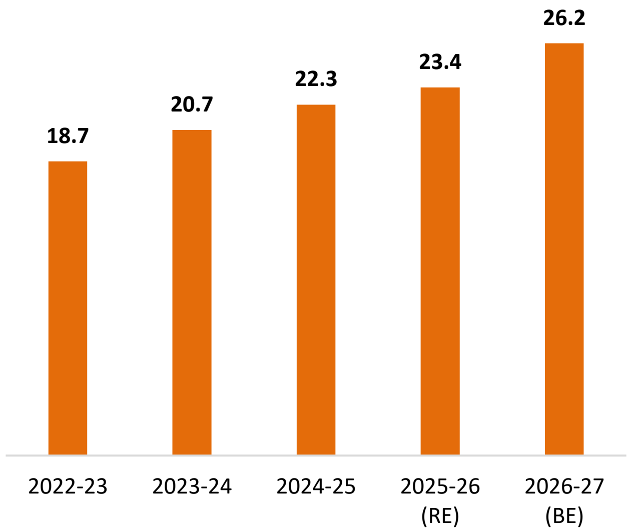
Effective Capital Expenditure

In INR Lakh Cr.

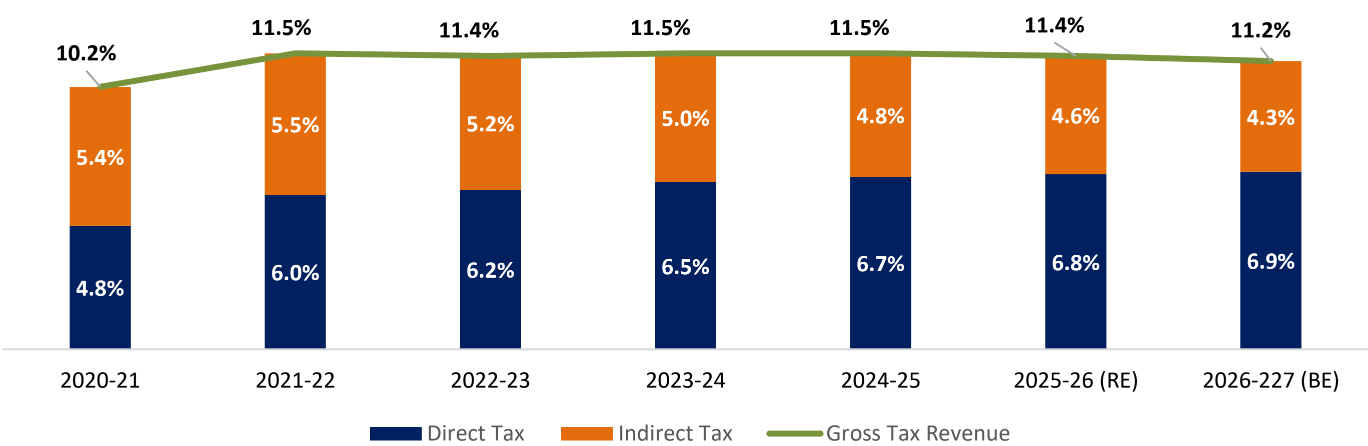


Total transfer to States and UTs

In INR Lakh Cr.



Trend in Tax Receipts (% of GDP)



BE – Budget Estimate | RE – Revised Estimate

Source: Budget at a glance

Union Budget 2026-27– A Snapshot

Budget Theme

A. ECONOMIC PERFORMANCE AND EXPECTATIONS

- **GDP Growth Rate** – The real GDP growth of Indian economy is forecasted to grow at 7.4 %.
- **Fiscal Deficit:**
  - In RE 2025-26, the fiscal deficit has been estimated at par with BE of 2025-26 at 4.4 percent of GDP
  - The fiscal deficit in BE 2026-27 is estimated to be 4.3 percent of GDP

B. BUDGET THEME

- The Union Budget 2026-27 is anchored in a Yuva Shakti–driven, Kartavya-led development strategy, aimed at accelerating growth, building people's capacity, and ensuring inclusive participation in India's journey towards Viksit Bharat.

KEY PILLARS: THE THREE KARTAVYA'S

1. First Kartavya: Accelerate and Sustain Economic Growth

Focus Areas

- Scaling up manufacturing in strategic and frontier sectors
- Infrastructure-led growth with record public capex
- Strengthening domestic supply chains and energy security
- Building resilience to volatile global dynamics

Budget Signals

- ₹12.2 lakh crore public capital expenditure
- Manufacturing, MSMEs, infrastructure and exports as growth drivers

2. Second Kartavya: Fulfil Aspirations and Build Capacity

Focus Areas

- Employment-led development
- Skill development and education aligned with industry needs
- Strengthening health, care economy and services sector
- Supporting entrepreneurship and innovation

Budget Signals

- Yuva Shakti–centric skilling initiatives
- Expansion of healthcare, education, and allied services
- Innovation and technology as productivity multipliers

3. Third Kartavya: Sabka Sath, Sabka Vikas

Focus Areas

- Inclusive growth across regions, sectors and communities
- MSME empowerment and rural development
- Women-led development and social infrastructure
- Equitable access to opportunities and amenities

Budget Signals

- Targeted MSME support (equity, liquidity, professional assistance)
- Focus on Tier II & III cities and rural economy
- Strengthening social and economic inclusion frameworks

ENABLERS OF THE 3 KARTAVYA FRAMEWORK

Sustained Structural Reforms – continuous, adaptive and forward-looking

Robust & Resilient Financial Sector – efficient capital allocation and risk management

Cutting-edge Technologies (including AI) – force multipliers for governance and service delivery

Union Budget 2026-27– A Snapshot

Direct Taxation

A. TAX RATES: **No Change**

➢ **Tax Slab for Individual/HUF (Amt in Rs.) : -**

Existing Income Slab under new tax regime	Slab Tax Rate
Upto 4 Lakh	NIL
4 Lakh - 8 Lakh	5%
8 Lakh – 12 Lakh	10%
12 Lakh – 16 Lakh	15%
16 Lakh – 20 Lakh	20%
20 Lakh- 24 Lakh	25%
Above 24 Lakh	30%

Income Slab under Old Regime	Slab Tax Rate
Upto 2.5 Lakh	NIL
2.5 Lakh - 5 Lakh	5%
5 Lakh - 10 Lakh	20%
Above 10 Lakh	30%

Surcharge for Individual/HUF

Surcharge Slab	Surcharge Rate (New Tax Regime)	Surcharge Rate (Old Tax Regime)
Income exceeding Rs 50 Lakh < Rs 1 Crore	10%	10%
Income exceeding Rs 1 Crore < Rs 2 Crore	15%	15%
Income exceeding Rs 2 Crore < Rs 5 Crore	25%	25%
Income exceeding Rs 5 Crore	25%	37%

- Rebate u/s 156 of New IT Act (87A of Old IT Act) under Old Tax Regime is Rs. 12,500/-.
- Rebate u/s 156 of New IT Act (87A of Old IT Act) under New Tax Regime of Rs. 60,000/-.
- Surcharge on Capital Gains taxable u/s 196, 197 and 198 of New IT Act (Sections 111A ,112 & 112A of Old IT Act resp.) and on dividend income is capped at 15%.
- Cess: Health & Education cess in all cases remains unchanged at 4%.

➢ Corporate Tax:

Change in MAT Rate

Basic tax rates for companies are as under :-

Particulars	Tax rates
For domestic companies whose total turnover or gross receipts in the tax year 2024-25 does not exceed Rs 400 Crores	25%
For companies opting for Section 199 of New IT Act (115BA of Old IT Act)	25%
For companies opting for Section 200 of New IT Act (115BAA of Old IT Act)	22%
For companies opting for Section 201 of New IT Act (115BAB of Old IT Act)	15%
For other domestic Companies	30%
Foreign Companies	35%

- MAT is proposed at 14% instead of 15% .
- MAT is applicable for companies except those opting for new tax regime.

Surcharge for Companies

Particulars	Domestic Company	Foreign Company
Income exceeding Rs 1 crore < Rs 10 Crore	7%	2%
Income exceeding Rs 10 crore	12%	5%

- For companies opting for new tax regime, surcharge of 10% would be levied irrespective of the income.
- Cess - Health & Education Cess in all cases remains unchanged at 4%.

No Change

- **Firms and LLP Tax Rate**

  Basic tax rate remains at 30% and surcharge rate is 12% where income exceeds Rs 1 Crore.

  Health & Education Cess in all cases remains unchanged at 4%.

- **Co-operative Society Tax Rate**

No Change

Particulars	Tax Rate
Income upto Rs 10,000	10%
Income exceeding Rs 10,000 < Rs 20,000	20%
Income exceeding Rs 20,000	30%

- Surcharge: 7% if total income exceeds Rs 1 Crore and 12% if total income exceeds Rs 10 Crores.
- Health & Education Cess in all cases remains unchanged at 4%.

- **AOP/BOI/Artificial Judicial Person (Old Tax Regime)**

Particulars	Tax Rate
Income upto Rs 2.5 Lakh	Nil
Income exceeding Rs 2.5 Lakh >Rs 5 Lakh	5%
Income exceeding Rs 5 Lakh > Rs 10 Lakh	20%
Income exceeding Rs 10 Lakh	30%

Surcharge for AOP/BOI/Artificial Judicial Person (Old Tax Regime)

Particulars	Tax Rate
Income exceeding Rs 50 Lakh > Rs 1 Crore	10%
Income exceeding Rs 1 Crore > Rs 2 Crore	15%
Income exceeding Rs 2 Crore > Rs 5 Crore	25%
Income exceeding Rs 5 Crore	37%

- Surcharge on Capital Gains taxable u/s 196, 197 and 198 of New IT Act (Sections 111A ,112 & 112A of Old IT Act resp.) and on dividend income is capped at 15%.
- Maximum Surcharge on AOP with all members as a company is 15%.
- Cess: Health & Education cess in all cases remains unchanged at 4%.

➢ **AOP/BOI / Artificial Judicial Person (Amount in Rs.)** **No Change**

Income Slab under new tax regime	Tax Rate
Upto 4 Lakh	NIL
4 Lakh - 8 Lakh	5%
8 Lakh – 12 Lakh	10%
12 Lakh – 16 Lakh	15%
16 Lakh – 20 Lakh	20%
20 Lakh- 24 Lakh	25%
Above 24 Lakh	30%

Surcharge for AOP/BOI/AJP– New Tax Regime	Tax Rate
Income exceeding Rs 50 Lakh < Rs 1 Crore	10%
Income exceeding Rs 1 Crore < Rs 2 Crore	15%
Income exceeding Rs 2 Crore	25%

- Surcharge on Capital Gains taxable u/ s 196, 197 and 198 of New IT Act (Sections 111A ,112 & 112A of Old IT Act resp.) and on dividend income is capped at 15%.
- Maximum Surcharge on AOP with all members as a company is 15%.
- Cess Health & Education cess in all cases remains unchanged at 4%.

B. CORPORATE TAX

1. Rationalisation of Minimum Alternate Tax (MAT)

- MAT provisions proposed to be simplified to support transition to the new tax regime.MAT paid under the old tax regime to be treated as final tax; no fresh MAT credit to be allowed going forward.
- MAT rate proposed to be reduced from 15% to 14%.
- Set-off of existing MAT credit to be allowed only under the new tax regime.
- For domestic companies, MAT credit set-off capped at 25% of tax liability.
- For foreign companies, MAT credit set-off allowed to the extent normal tax exceeds MAT.
- Amendments aimed at rationalising MAT and encouraging adoption of the new tax regime.
- Applicable from tax year 2026-27 onwards.

2. Buy Back

- Under the existing provisions, consideration received on buy-back of shares is taxed as dividend income, while the cost of acquisition of shares extinguished is allowed as a capital loss.
- The proposed amendment shifts the taxation of buy-back consideration to the head "Capital gains", replacing the dividend-based regime.
- Cost of acquisition of shares extinguished on buyback will be allowed as deduction while computing capital gains.
- An additional buyback tax has been introduced for defined promoters to curb tax arbitrage.
- Meaning of Promoter
  - For listed companies – As per SEBI (Buy-Back of Securities) Regulations, 2018
  - For unlisted companies – As per section 2(69) of the Companies Act, 2013; or person who holds, directly or indirectly, more than 10% of shareholding in the company
  - The meaning of the Promoter as per aforesaid SEBI/Company's Act legislation essentially covers the following:

a) person who are disclosed as promoter in prospectus/offer document/draft offer document/annual return; or

b) Person having control over the affairs of the company, directly or indirectly; or

c) Person on whose advice, directions or instructions the Board of Directors acts

The applicable rates for promoter shareholders are mentioned below

Type of Promoter	Nature of Gains	Type of Security	Capital gains tax rate	Additional tax rate	Effective Tax rate
Domestic companies	Long Term	Listed Securities	12.50%	9.50%	22%
	Long Term	Unlisted Securities	12.50%	9.50%	22%
	Short term	Listed Securities	20%	2%	22%
	Short term	Unlisted Securities	Applicable rate		
Other than domestic companies	Long term	Listed Securities	12.50%	17.50%	30%
	Long term	Unlisted Securities	12.50%	17.50%	30%
	Short Term	Listed Securities	20%	10%	30%
	Short Term	Unlisted Securities	Applicable rate		

- Tax rates for non-promoter shareholders shall same as per applicable capital gains tax rates with no additional tax.
- Proposed amendment effective from 01 April 2026 and shall apply in relation to the tax year 2026-27 and subsequent year.

C. SIMPLIFICATION OF INCOME TAX RETURN FILING

1. Rationalisation of the Due date for filing of return of Income

- The following amendments has been proposed with respect to the due date for filing of the return of income:

S.No.	Person	Due Date
1	Assessee, including the partners of the firm or the spouse of such partner (if section 10 applies to such spouse)	30th November
2	i. Company; ii. Assessee (other than a company) whose accounts are required to be audited under this Act or under any other law in force; iii. Partner of a firm whose accounts are required to be audited under this Act or under any other law in force; or the spouse of such partner (if section 10 applies to such spouse).	31st October
3	i. Assessee having income from profits and gains of business or profession whose accounts are not required to be audited under this Act or under any law in force; ii. Partner of a firm whose accounts are not required to be audited under this Act or under any other law in force or the spouse of such partner (if section 10 applies to such spouse).	31st August
4	Any other assessee	31st July

- It is proposed that the amendments is made in the New IT Act for tax year 2026-27 and subsequent tax years.
- Similar amendments have been proposed in Explanation-2 to sub-section (1) of section 139 of the Old IT Act to extend the due date of filing return of Income.
- Amendments made in the Old IT Act shall come into force from the 1st day of March, 2026 for Assessment Year 2026-27(Previous Year 2025-26).

2.Extending Due date for filing of revised tax return

- The Finance Bill, 2026 proposes to extend the time limit for furnishing revised income tax returns from the existing 9 months to 12 months from the end of the relevant tax year.
- Revised returns filed after 9 months would attract an additional fee of INR 1,000 where total income does not exceed INR 500,000 and INR 5,000 in other cases.
- These amendments will be applicable from tax year 2026-27 onwards.

3. Widening the Scope for Filing Updated Return

The scope for filing updated returns is proposed to be widened with effect from 1 March 2026 through the following measures:

- Updated returns will be allowed even where the original return is a loss return, provided the updated return results in reduction of the loss claimed.
- Filing of updated returns will be permitted after initiation of reassessment proceedings, subject to filing within the time specified in the reassessment notice and payment of additional tax, including an extra 10% over the existing slabs.
- No penalty shall be levied on additional income disclosed through an updated return.

D. LITIGATION, PENALTY AND PROSECUTION

1. Rationalising Block Period for Other Persons

- Under section 295 of the New IT Act, where undisclosed income belongs to a person other than the searched person, proceedings are initiated against such "other person".
- Currently, the same block period applies to both the searched person and the other person.
- This caused hardship where the other person's undisclosed income relates to only one tax year, yet full block assessment was required.
- The amendment limits the block period for other persons to reduce unnecessary compliance burden.

2. Referencing the time limit to complete block assessment to the initiation of search or requisition

- Presently, block assessment must be completed within 12 months from the end of the quarter in which the last search authorisation is executed.
- This creates different limitation periods in group search cases, causing practical issues.
- Amendment proposes to link the limitation period to the date of initiation of search/requisition.
- Time limit for completing block assessment is extended to 18 months.
- Applicable for search/requisition initiated on or after 1 April 2026.

3. Assessments not invalid due to DIN-related defects.

- The law already says that small technical mistakes should not invalidate an income-tax assessment.
- Some courts quashed assessments because the Document Identification Number (DIN) was missing or wrongly mentioned.
- This Bill clarifies that an assessment will not become invalid just because of minor mistakes or omissions in quoting DIN, as long as the order is linked to a DIN in any way.
- <u>Applicability:</u>
  - Old IT Act – effective retrospectively from 1 October 2019
  - New IT Act – effective from 1 April 2026

4. Clarification regarding jurisdiction to issue notice u/s 148 (Old IT Act) where income has escaped assessment and for carrying out pre-assessment procedure u/s 148A (Old IT Act)

- Pre-assessment enquiry and issue of notice u/s 148A & 148 of Old IT Act can be done only by the jurisdictional Assessing Officer (AO).
- It is clarified that NaFAC / its assessment units have no role in issuing notices or conducting enquiries before notice u/s 148 of Old IT Act.
- NaFAC comes into picture only after notice u/s 148 of Old IT Act, for faceless reassessment proceedings.
- Amendment clarifies law to remove conflicting court views and reduce litigation.
- Applicability:
  - Old IT Act– retrospective from 1 April 2021
  - New IT Act – effective from 1 April 2026

5. Clarifying time-limit for completion of assessment under section 144C of Old IT Act

- Section 144C of Old IT Act prescribes a special procedure and specific time limits for completing assessments in eligible cases.
- It is clarified that time limits u/s 153 and 153B of Old IT Act apply up to the draft assessment order stage only.
- Final assessment shall be completed within the time limits provided in section 144C, notwithstanding sections 153 and 153B of Old IT Act.
- Applicability:
  - Old IT Act – from 1 April 2009 (section 153) and 1 October 2009 (section 153B)
  - New IT Act – from 1 April 2026

6. Rationalization of prosecution proceedings

- Earlier law prescribed harsh prosecution and long imprisonment for many tax offences.
- Amendments aim to reduce criminalisation and make punishment fair and proportionate.
- Rigorous imprisonment replaced with simple imprisonment; jail terms are substantially reduced.

- Minor defaults and small tax amounts now attract only fines, and some offences are fully decriminalised.
- Punishments are linked to the amount of tax involved, with clear monetary thresholds.
- Similar relief is extended to corresponding provisions under the Income-tax Act, 1961.
- Changes apply from 1 April 2026 (New IT Act) and 1 March 2026 (Old IT Act).

7. Rationalization of Penalties into Fee

- Existing penalties for procedural and technical defaults (audit report, transfer pricing report, SFT reporting) often lead to litigation.
- To reduce disputes, such penalties are proposed to be converted into mandatory fees.
- Penalty for failure to get accounts audited is replaced with a graded fee of Rs 75,000 / Rs 1,50,000 based on delay.
- Penalty for failure to furnish report under section 172 is converted into a graded fee of Rs 50,000 / Rs 1,00,000.
- Penalty for failure to furnish statement of financial transactions/reportable account is converted into a fee, with a cap of Rs 1,00,000.
- Amendments apply from 1 April 2026 for 2026-27 onwards

8. Imposition of penalty for under-reporting or misreporting of income within Assessment Order

- Currently, assessment and penalty proceedings are separate, leading to multiple notices, orders, and prolonged uncertainty for taxpayers.
- Penalty is initiated after assessment, while recovery and interest start even though appeals may be pending.
- This results in multiplicity of proceedings and higher compliance burden.
- Amendment proposes that penalty for under-reporting/misreporting be imposed within the assessment order itself.
- Interest u/s 220(2) of the Old IT Act will be charged only after disposal of appeal by CIT(A)/ITAT, as applicable.
- Consequential changes are proposed in DRC provisions.

- Amendments come into force from 1 April 2026 and apply to assessments/reassessments made on or after 1 April 2027.

9. Increase in maximum amount of penalty in section 466 of the Act

- Section 254 of the New IT Act empowers tax authorities to collect information from business premises.
- Section 466 of the New IT Act currently prescribes a maximum penalty of Rs 1,000 for non-compliance.
- Maximum penalty enhanced from Rs 1,000 to Rs 25,000 under section 466 of the New IT Act.
- Applicable from tax year 2026-27 onwards.

10. Rationalisation of tax rate under section 195 of the New IT Act and penalty under section 443 of the New IT Act in respect of certain Income

- Sections 102 to 106 of the New IT Act deal with taxation of unexplained income (cash credits, investments, assets, expenditure, etc.).
- Currently, such income is taxed at a flat rate of 60% under section 195 of the Act, with an additional 10% penalty under section 443 of the New IT Act.
- To rationalise the regime, the tax rate is proposed to be reduced from 60% to 30%.
- The separate penalty u/s 443 of the New IT Act is proposed to be omitted.
- Penalty on such income will now be covered under misreporting provisions u/s 439(11) of the New IT Act.
- Applicable from tax year 2026-27 onwards.

11. Expanding the scope of immunity from penalty or prosecution under section 440 of the New IT Act

- Section 440 of the New IT Act provides immunity from penalty and prosecution if tax and interest are paid on time and no appeal is filed.
- Currently, immunity is available only for under-reporting, not for misreporting cases.
- It is proposed to extend immunity to misreporting cases, subject to payment of additional tax:
- 100% of tax payable in normal misreporting case.
- 120% of tax payable for income under sections 102–106 of the New IT Act.

- Applicable from tax year 2026-27 onwards.

12.Expansion of Immunity from Penalty and Prosecution under Section 270AA of the Old IT Act

- To promote voluntary compliance and reduce prolonged litigation, it is proposed to expand the scope of immunity under section 270AA of the Old IT Act.
- Currently, immunity from penalty and prosecution is available only in cases of under-reporting of income, subject to payment of tax and interest and non-filing of appeal.
- However, the same does not extend to cases where under-reporting arises due to misreporting.
- In order to grant relaxation to the taxpayers, it has been proposed to extend immunity in such cases of under-reporting due to misreporting subject to taxpayers being required to pay additional tax equal to 100% of the tax payable along with the fulfilment of the existing prescribed conditions.
- This amendment will take effect from 1 March 2026 and will apply to AY 2026-27 and earlier assessment years.

13.Penalty Provisions Proposed for Non-Compliance in Crypto-Asset Reporting

- To ensure effective compliance with crypto-asset reporting requirements, it is proposed to introduce specific penalty provisions under the Act.
- Section 509 of New IT Actcurrently mandates prescribed reporting entities to furnish statements relating to transactions in crypto-assets.
- To deter non-compliance, the proposed amendment introduces a penalty of ₹200 per day for failure to furnish the required statement and a fixed penalty of Rs 50,000 for furnishing inaccurate particulars and not rectifying such inaccuracies.
- Accordingly, section 446 of the New IT Act is proposed to be amended to incorporate these penalty provisions.
- Applicable from tax year 2026-27 onwards.

E. Black Money Act

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

- One-time voluntary disclosure scheme (effective date to be notified by the Central Government) is proposed for small taxpayers to regularise past non-compliances relating to foreign income and/or assets, subject to the following:
  - **Undisclosed foreign assets or income**

    Eligibility: Aggregate undisclosed income and asset value up to **Rs 1 crore**

    Amount payable: Tax at 30% on undisclosed foreign income and on FMV (as on 31 March 2026) of undisclosed foreign assets.

    Penalty equal to 100% of the tax
  - **Foreign income disclosed but foreign assets not reported**

    Eligibility: Aggregate undisclosed foreign asset value up to **Rs 5 crore**

    Amount payable: Fixed fee of INR 1,00,000
- **Benefits:** Immunity from penalty and prosecution on valid declaration and payment under **FAST-DS 2026**
- **Exclusions:** Scheme not available where proceedings are pending under PMLA or concluded under the Black Money Act (BMA)

2. Relaxation of conditions for prosecution under the Black Money Act

- Provides relaxation from prosecution under the Black Money Act for minor and inadvertent non-disclosures by resident taxpayers.
- Sections 49 and 50 prescribing stringent prosecution will not apply to foreign assets (other than immovable property) with aggregate value up to ₹20 lakh.
- Amendment is retrospective, effective from 1 October 2024.

F. Attracting Global Business and investment

1. Tax Exemption on Income arising from Data Centres & AI Infrastructure in India of Foreign Companies

- The proposal introduces a tax exemption for foreign companies earning income in India by way of procuring data centre services from specified data centres. Such income will be excluded from taxable income until the tax year ending 31 March 2047. The measure aims to attract data centre investment and strengthen India’s AI infrastructure.

- A key condition requires that services provided to Indian users by the foreign company must be routed through an Indian reseller entity. The amendment also defines “data centre,” “data centre services,” and “specified data centre.”
- Applicable from tax year 2026-27 onwards.

2. Tax Exemption on Income of Foreign Companies Supplying Capital Equipment to Electronics Manufacturers

- The proposal grants a tax exemption to foreign companies on income earned from supplying capital goods, equipment, or tooling to Indian contract manufacturers of electronic goods operating in customs bonded warehouses.
- The exemption will apply to eligible income until tax year 2030–31. The benefit is available where the Indian manufacturer produces goods on behalf of the foreign company for consideration.
- Applicable from tax year 2026-27 onwards.

3. Tax Incentive for Prospecting of Critical Minerals

- Budget 2026 proposes to expand Schedule XII of New IT Act to include critical minerals. Consequently, expenditure incurred on prospecting and exploration of such critical minerals will become eligible for deduction under section 51 of New IT Act.
- The deduction continues to be allowed on a deferred basis over 10 years from the year of commercial production.
- Applicable from tax year 2026-27 onwards.

4. MAT Exclusion Extended for Non-Residents opting for presumptive taxation

- Budget 2026 extends MAT exemption to additional non-resident businesses opting for presumptive taxation under section 61 of the New IT Act. The relief now covers non-residents engaged in operation of cruise ships and in providing services or technology for setting up electronics manufacturing facilities in India.
- Applicable from tax year 2026-27 onwards.

G. Transfer Pricing

1. Associated Enterprises also allowed to file a Modified Return pursuant to Advance Pricing Agreement (APA)

- Currently, only the APA signatory can file a modified return, even where income of the Associated Enterprise (AE) is correspondingly impacted. The amendment allows the AE, whose income is modified pursuant to an APA, to file a modified return, in accordance with and limited to the APA.
- This enables the AE to claim refund of excess tax paid or tax withheld.
  Such return must be filed within 3 months from the end of the month in which the APA is entered into.
- The provision applies to APAs entered on or after 1 April 2026. Effective from tax year 2026-27 onwards.

2. Time limit for TP Order

- Clarification provided for method of computing the 60-day period for passing TP orders, addressing ambiguities that existed under the earlier framework.
- Clarification in the Old IT Act shall come into force with retrospective effect from 1st day of June, 2007. The amendment in New IT Act shall come into force with effect from 1st day of April, 2026

3. Rationalisation of Safe Harbour Rules

- Information Technology Sector
  - IT, ITeS, KPO and contract R&D services consolidated into a single category of 'IT Services', with a uniform safe harbour margin of 15.5%.
  - The upper turnover threshold increased from Rs.2,000 crore bringing a larger set of taxpayers within the framework
  - Approval mechanism will shift to an automated, rule-driven process eliminating need for examination by tax officer
  - Safe harbour can be opted for up to 5 years

H. Withholding of Tax

1. Enabling electronic verification and issuance of certificate for deduction of income-tax at lower rate or no deduction of income-tax

- Existing provision: Under section 395(1) of the New IT Act, payees must apply before the AO for a lower or nil TDS certificate, which is issued after verification.
- Proposed amendment: Payees may apply electronically before a prescribed income-tax authority instead of the AO.
- The authority may grant or reject the certificate based on prescribed conditions, easing compliance for small taxpayers.

2. TAN Requirement Removed for Property Purchases from Non-Resident Sellers

- In order to simplify tax compliance for buyers of immovable property, it has been proposed to provide relaxation from obtaining TAN for the purpose of deposit of tax deducted at source on payment made to non-resident sellers.
- The proposal has been made to align such buyers with the existing relaxation already available for purchase of immovable property from resident sellers. The proposed amendment would bring parity in compliance requirements across property transactions.
- The amendment will take effect from the 1st day of October, 2026.

3. Clarity on TDS Applicability on Supply of Manpower

- Clarifies TDS treatment on payments for supply of manpower
- Removes ambiguity between contractor services and professional/technical services
- Includes supply of manpower within the definition of “work” under section 402(47) of the New IT Act.
- Brings such payments under contractor TDS provisions of section 393(1) of the New IT Act.
- Applicable TDS rates:
- 1% where payment is to individuals or HUFs
- 2% in all other cases
- Applicable from tax year 2026-27 onwards.

4. Allowing deduction to non-life insurance business when TDS, not deducted

- **Issue under existing law:** For non-life insurance businesses, expenditure disallowed due to TDS default under section 35(b) of the Old IT Act had no clear mechanism for re-allowance in later years, unlike disallowance under section 37 of the Old IT Act.
- **Proposed amendment:** A new provision in Schedule XIV of New IT Act allows such expenditure to be deducted in the year in which TDS is subsequently deducted and paid, removing unintended hardship.

5. No TDS on Interest Paid to Co-operative Banks

- Section 393(4) of the New IT Act specifies circumstances where tax deduction at source is not required. The proposed amendment exempts interest income (other than interest on securities) paid or credited to co-operative societies engaged in the business of banking, including co-operative land mortgage banks, from TDS.
- This change in the New IT Act aligns with Old IT Act and removes the TDS compliance burden on such payments.
- The amendment will be effective from 1 April 2026.

6. Changes proposed in TCS rates (to be effective from 1st April, 2026) :

S. No.	Nature of Receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption	1%	2%
2	Sale of tendu leaves	5%	2%
3	Sale of Scrap Material	1%	2%
4	Sale of minerals, being coal or lignite or iron ore	1%	2%
5	Remittance under the LRS of an amount or aggregate of the amounts exceeding 10 lakh rupees	1. 5% in case remittance is for purpose of education or medical treatment; 2. 20% for purpose other than education or medical treatment.	1. 2% in case remittance is for purpose of education or medical treatment; 2. 20% for purpose other than education or medical treatment.
6	Sale of "overseas tour programme package" including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	1. 5% in case amount or aggregate of amounts is upto Rs. 10 lakh; 2. 20% in case amount or aggregate of amounts exceed Rs. 10 lakh.	2%

I. IFSC Related Changes

1. Extension of Deduction Period for IFSC Units and Rationalisation of Tax Rate

- Section 147 of New IT Act presently allows a 100% deduction of specified incomes earned by units in
  - International Financial Services Centres (IFSCs) - For 10 consecutive years out of 15 years. Now, it will be 20 consecutive years out of 25 years.
  - Offshore Banking Units (OBUs) - For 10 consecutive years. Now, it will be 20 consecutive years.
- Further, the business income of IFSC units earned after the expiry of the deduction period shall be taxed at a concessional rate of 15%.
- Applicable from tax year 2026-27 onwards.

2. Rationalisation of Provisions Applicable to Treasury Centres in IFSC

- Section 2(40) of the New IT Act defines the term "dividend", and sub-clause (v) thereof excludes certain inter-group advances or loans from its ambit, subject to prescribed conditions.
- To rationalise this provision, it is proposed to amend the sub-clause to require that the other group entity to the transaction is also located in a notified jurisdiction outside India. Further, the parent or principal entity of the group must be listed on a stock exchange outside India, with such foreign jurisdiction to be specified by the Central Government by notification in the Official Gazette.

3. Insertion of Definitions

- For the purposes of the above provisions, it is proposed to define "group entity" in line with clause (m) of sub-regulation (1) of regulation 2 of the International Financial Services Centres Authority (Payment Services) Regulations, 2024.
- The term "parent entity" or "principal entity" shall mean an entity whose subsidiaries are group entities and which either controls more than fifty percent of the voting power, directly or indirectly, or controls the composition of the Board of Directors.
- Applicable from tax year 2026-27 onwards

J. Others

1. Increase in Securities Transaction Tax Rates

- To curb excessive speculation in derivatives trading, a calibrated upward revision of STT rates has been proposed.
  - Sale of options is proposed to increase to 0.15%, both on premium and intrinsic value upon exercise
  - Sale of futures is proposed to increase from 0.02% to 0.05% of the traded price. A massive 150% increase from the existing rate.
- The amendment will be effective from 1st April 2026.

2. Exemption for Sovereign Gold Bonds

- Section 70(1)(x) of New IT Act currently provides exemption from capital gains tax on redemption of Sovereign Gold Bonds (SGBs) issued by the Reserve Bank of India.
- These bonds are issued through multiple series over time. The amendment clarifies that the exemption will be available only where the bonds are subscribed at the time of original issue and held continuously until redemption on maturity. This ensures uniform application of the exemption and aligns it with legislative intent.
- Applicable from tax year 2026-27 onwards.

3. Non-allowability of Interest Deduction Against Dividend Income

- Currently, Section 93 of the New IT Act, allows deduction of interest expenditure against dividend income or income from specified mutual fund units [specified u/s 10(23D) of Old IT Act], subject to a ceiling of 20% of such income.
- The proposed amendment seeks to completely disallow interest expenditure incurred for earning dividend income or income from mutual fund units. This removes the existing partial deduction benefit for passive investment income.
- Applicable from tax year 2026-27 onwards.

4. Amendment in the Definition of "Specified Fund"

- The Finance Bill, 2026 proposes to amend the definition of "specified fund" in Note 1(g) of Schedule VI of New IT Act. The amendment aligns this definition with section 10(4D) of the Old IT Act.
- As a result, only funds qualifying under section 10(4D) will be eligible for the concessional benefits provided under Sl. Nos. 1 to 4 of Schedule VI. This change is clarificatory in nature and removes interpretational inconsistencies.
- Applicable from tax year 2026-27 onwards.

5. Definition of "Authorised Person" u/s 402(27)(c) of New IT Act amended to link it with FEMA.

- Under existing Section 402 'Interpretation' sub-section (27) clause (c) of New IT Act, an authorised person is the person responsible for making payments in cases involving payments to non-residents for the transfer of any foreign exchange assets, which is not a short-term capital asset.
- Now, the person responsible for making payment has been replaced with the authorised person, referred in clause (c) of section 2 of the FEMA.
- Under FEMA, *"authorised person" means an authorised dealer, money changer, off-shore banking unit or any other person for the time being authorised under sub-section (1) of section 10 to deal in foreign exchange or foreign securities*
- The proposed definition aligns the New IT Act with the earlier law, thereby removing ambiguity and ensuring consistency in interpretation.
- Applicable from tax year 2026-27 onwards.

6. Clarifying 'Repeal and Savings' Clause for Deductions Taxable in Later Years

- The proposed amendment to section 536(2)(h) of New IT Act addresses a transitional gap arising from the repeal of the Old IT Act. Earlier, income was brought to tax under the new Act only where there was a breach of conditions attached to a deduction or exemption granted under the old Act.

- The amendment expands the scope to also cover cases where a deduction or exclusion was allowed under the Old IT Act, but the amount was otherwise taxable in a later year under that Act, even without any violation of conditions. This ensures that such income does not escape taxation merely due to the change in law.
- Accordingly, such amounts will be treated as deemed income under the New IT Act in the year in which they would have been taxable.
- Applicable from tax year 2026-27 onwards.

7. Tax Exemption on Interest on Compensation awards by Motor Accident Claims Tribunal (MACT)

- Budget 2026 proposes to exempt interest received on compensation awarded by the Motor Accident Claims Tribunal. The exemption applies to individuals as well as their legal heirs. Such interest income must be received under the Motor Vehicles Act, 1988.
- Additionally, no TDS to be deducted on such interest on such compensation award.

8. Tax Exemption on Compulsory Land Acquisition Compensation

- Income arising from compulsory acquisition of land is proposed to be exempt from tax for Individuals and HUFs. The exemption applies where the award or agreement is made under Section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act, 2013).
- However, acquisitions covered under section 46 of the said Act are specifically excluded. Acquisitions under Section 46 of RFCTLARR Act 2013 i.e. acquisitions from private companies or for Public Private Partnerships (PPP) are commercial/private in nature, not purely compulsory sovereign acquisitions. Hence, tax exemption is restricted to genuine compulsory acquisitions, and Section 46 cases are expressly carved out to prevent misuse.

9. Rationalising the due date to credit employee contribution by the employer to claim such contribution as deduction

- Existing rule: Deduction of employees' contribution is allowed only if credited to the relevant fund by the due date prescribed under respective welfare laws.

- Proposed change: The due date for claiming deduction is proposed to be aligned with the due date of filing the return of income under section 263(1) of the New IT Act (corresponding to section 139(1) of the Old IT Act).

10. Exemption for Disability Pension to Armed and Paramilitary Forces Personnel

To bring clarity and statutory certainty, it is proposed to expressly provide exemption for disability pension received by members of the Armed Forces who are invalided out of service due to a bodily disability attributable to or aggravated by military, naval, or air force service. The exemption will cover both the service element and the disability element of such pension. However, the benefit will not be available in cases where the individual retires on superannuation or otherwise. Importantly, the proposed exemption will also be extended to eligible paramilitary personnel.

- This amendment will take effect from 1 April 2026 and apply from Tax Year 2026–27 onwards.

- This amendment will take effect from 1 April 2026 and will apply in relation to tax year 2026 – 27 and subsequent years.

11. Definition of "Commodity Derivative" Proposed under the Act

- To address an existing gap and ensure consistency with the Old IT Act, it is proposed to amend section 66 of the New IT Act to formally define the term "commodity derivative." While the term is currently used in the definition of "specified derivative transaction" under section 66(33) of the New IT Act, it has not been explicitly defined in the Act, leading to potential interpretational issues.

- The proposed amendment seeks to align the provisions with the earlier law and provide clarity and certainty in taxation of commodity derivative transactions.
- Applicable from tax year 2026-27 onwards.

12. Amendment in Provisions Relating to Merger of Non-Profit Organisations (NPOs)

- To bring clarity and align the New IT Act with the provisions of the Old IT Act, it is proposed to introduce a new section 354A under New IT Act to address taxation on merger of non-profit organisations. Under the proposal, where a registered NPO merges with another registered NPO having the same or similar objects, the provisions relating to tax on accreted income under section 352 of New IT Act will not apply, provided the prescribed conditions are fulfilled. Correspondingly, section 352(4) of the New IT Act is proposed to be amended to levy tax on accreted income where an NPO merges with a non-NPO entity, an NPO with dissimilar objects, or an NPO with similar objects but without meeting the prescribed conditions. This amendment provides much-needed certainty and facilitates genuine consolidation within the non-profit sector.
- Applicable from tax year 2026-27 onwards.

13. Amendment in Section 349 – Filing of Belated Return by NPOs

- To ease compliance for registered Non-Profit Organisations (NPOs), it is proposed to amend section 349 of the New IT Act to allow the filing of belated returns. At present, section 349 of New IT Act permits return filing only within the time limit prescribed under section 263(1)(c) of New IT Act. The proposed amendment introduces a reference to section 263(4) of New IT Act, thereby enabling registered NPOs to furnish belated returns, in line with the position that existed under the New IT Act. This change provides much-needed flexibility and relief to the non-profit sector
- Applicable from tax year 2026-27 onwards.

Union Budget 2026-27– A Snapshot

Indirect Taxation

A. Amendments under CGST Act, 2017

(effective from the date to be notified)

- **Valuation Related Changes** Section 15(3) is being amended to do away with the requirement of linking the post-sale discount with an agreement to claim reduction in value of supply. As per the amended provision, value of supply can be reduced for post-sale discounts whether or not the same are linked with the agreement. In this regard credit note can be issued claiming reduction in value of supply. Necessary amendment has been made in section 34 as well.

- **Refund Related Changes**

  Section 54(6) is being amended to extend the grant of provisional refund to the extent of 90% of the total amount so claimed even in cases of inverted duty structure ITC refund claims. Section 54(14) is being amended to allow refund claims of even below Rs. 1K in case of Exports with payment of tax.

- **Administration Related Changes** As per the current provisions, Appeal against the conflicting orders of AAAR in case of the same PAN holder, can be filed before the National Appellate Authority.

- However, since National Appellate Authority is not established, the powers are conferred with tribunal. The powers to be exercised by the tribunal will be as per section 112 Which provides for processes regulated by tribunal.

B. Amendments under IGST Act, 2017

(effective from the date to be notified)

- **Intermediary Related Changes-** Section 13 has been amended to state that for intermediary related services, Place of Supply shall be the default rule that is location of recipient of services. This is inline with the recommendation of GST Council in 56th meeting. This will allow export benefit to intermediary services providers based in India.

C. Amendments under Customs Act, 1962.

(These changes will come into effect from the date of assent of the Finance Bill, 2026)

- Sub-section (2) of section 1 of the Customs Act, 1962 is being amended to extend the jurisdiction of the said Act beyond the territorial waters of India, for the purpose of fishing and fishing related activities.
- In section 2 of the Customs Act, 1962 a new clause is being inserted to define the expression ‘Indian-flagged fishing vessel.
- Sub-section (6) of section 28 of the Customs Act, 1962 is being amended so as to provide that the penalty paid under sub-section (5) of section 28, on determination under sub-section (6) thereof, shall be deemed to be a **charge for non-payment of duty.**
- Sub-section (2) of section 28J of the Customs Act, 1962 is being amended so as to provide that advance ruling under sub-section (1) of that section shall remain valid for a period of five years or till there is a change in law or facts on the basis of which the **advance ruling** has been pronounced, whichever is earlier..
- A new section 56A is being inserted to provide special provisions for **fishing and fishing related activities** by an Indian-flagged fishing vessel beyond territorial waters of India. It also provides that fish harvested beyond the territorial waters of India may be brought into India free of duty and to treat fish that has landed at foreign port as export of goods in such manner as may be provided by rules.
- Section 67 is being amended to do away with the requirement of prior permission of the proper officer under the said section for removal of warehoused goods from one **custom bonded warehouse** to another.

- Section 84 is being amended to enable the Board to make provisions for the custody of goods imported or to be exported under the regulations framed under this section (**Import/export by post/courier**).

D. Changes in Customs Rules/ Processes.

- Baggage Rules, 2016 is being superseded by the **Baggage Rules, 2026** to rationalize the baggage provisions and addressing passenger related concerns at airports and resolution of interpretational issues. Further, honest taxpayers, willing to settle disputes will be able close cases by paying an additional amount in lieu of penalty.

- **Deferred duty payment** is being made monthly from the existing 15 days and a new class of 'eligible importers' is being created. This is being done by amending the existing Deferred Payment of Import Duty Rules, 2016.
- A special one-time measure, to facilitate sales by eligible manufacturing units in **SEZs to the Domestic Tariff Area (DTA)** at concessional rates of duty is proposed. The quantity of such sales will be limited to a prescribed proportion of their exports.
- The Custom processes to have minimal intervention for smoother and faster movement of goods.
- Further, Duty deferral period for Tier 2 and Tier 3 Authorised Economic Operators, known as AEOs, is to be enhanced from 15 days to 30 days. Same is extended to the eligible manufacturer-importers.
- Complete removal of the current value cap of ₹10 lakh per consignment on courier exports supports aspirations of India's small businesses, artisans and start-ups to access global markets through e-commerce

E. Amendments in The Customs Tariff Act 1975 :-

- **Basic Customs Duty:**

  The First Schedule to the Customs Tariff Act, 1975 is being amended to **rationalize the customs tariff structure** by restructuring Basic Customs Duty (BCD) rates. It is an exercise for simplification of the Customs tariff structure and applicable Basic Customs Duty rate on these items would remain unchanged.

- The above changes are categorized as follows:
  - **Changes in tariff rates** <u>(changes are directly made in the first schedule of the Customs Tariff Act 1975):</u> Modification in Tariff rate (to be effective from 02.02.2026)*[Clause 136(a) of the Finance Bill, 2026]

    *Will come into effect immediately through a declaration under the Provisional Collection of Taxes Act, 2023 Decrease in Tariff rate (to be effective from 01.04.2026)

    Decrease in Tariff rate (to be effective from 01.04.2026) [Clause 136(b) of the Finance Bill, 2026]
  - **Tariff rate changes** <u>(without any change in effective rate of duty) to be effective from 01.05.2026, unless otherwise specified.</u>

    * [Clause 136(c) of the Finance Bill, 2026]
  - **Changes in notification** <u>(changes are made in the notification by which rate was prescribed):</u> Effective immediately w.e.f 02.02.2025

Lithium Ion Cells for batteries

S. No. 69A of notification No. 25/2002 dated 1st March, 2002 is being modified to extend the BCD exemption currently available on capital goods for use in the manufacturing of Lithium Ion Cells for batteries of Electrically Operated Vehicles, to cover batteries for stationary energy storage applications i.e. Battery Energy Storage Systems (BESS) also (w.e.f. 02.02.2026).

- **Drugs/ Medicines**

  The List 3 appended to TABLE I of notification No. 45/2025-Customs dated 24.10.2025 has been modified to include 17 new drugs/medicines for extending BCD exemption. This change is being made effective from 02.02.2026. (w.e.f. 02.02.2026).

- For detailed list of changes please check clause IV and V given at page no 74-77 of the Memorandum to Finance Bill 2026

- **Review of Customs duty Exemptions-**

  Review of exemptions /concessional rates of BCD prescribed in notification No. 45/2025-Customs dated 24.10.2025:

  A comprehensive review has been undertaken in respect of various exemptions/concessional duty rate entries in notification No. 45/2025-Customs dated 24.10.2025 whose validity is expiring on 31.03.2026. Illustratively, 102 entries are being continued, with or without modification, for two years, i.e. upto 31.03.2028. Further, 22 entries are being allowed to lapse on the end-date of 31.03.2026. Accordingly, various entries in the notification are being lapsed by omission or are being removed or modified.

  For list of tariff entries, please refer clause VI of the Memorandum to Finance Bill 2026 (page no 77-91).

  ***In Finance Bill, 2026 refer Schedule IV**

Social welfare surcharge (SWS)

Specified goods are exempted from SWS vide notification No. 11/2018-Customs. Consequently, certain entries to be omitted from exemption notification. For list of entries of tariff items- check page 93 and 94 of memorandum to Finance bill 2025.

AIDC

The description of the entry at Sl. No. 13A is being modified (w.e.f. 02.02.2026) as to omit the reference to S. No. 157 of TABLE I of notification No. 45/2025-Customs. Hence, the AIDC rate will continue unchanged at 0.5% for New pneumatic tyres, of rubber of a kind used on aircraft (other than those attracting NIL BCD).

F. Amendment in Central Excise Act, 1944:

- **NCCD Schedule rates:**
  - The Seventh Schedule to the Finance Act, 2001 is being amended to revise the NCCD Schedule rates on chewing tobacco (HS 2403 99 10), jarda scented tobacco (HS 2403 99 30) and other tobacco products including gutkha (HS 2403 99 90) w.e.f 01.05.2026.
  - For rate changes, please refer clause I of "EXCISE" of the Memorandum to the Finance Bill, 2026.(page no 93)

- **Central Excise Duty on value of Biogas/Compressed Biogas (CBG) contained In blended Compressed Natural Gas (CNG) :**
  - Through notification No. 02/2026-Central Excise dated 01.02.2026, the value of Biogas/Compressed Biogas (CBG) and the appropriate Central Tax, State Tax, Union Territory Tax or Integrated Tax, as the case may be, paid on Biogas or CBG contained in blended CNG, is being excluded from the transaction value for the purpose of computation of central excise duty on such blended CNG.
  - This change will come into effect from 02.02.2026.

- **The implementation of levy of additional excise duty of Rs. 2 per litre on unblended diesel is being deferred till 31.03.2028,** by amending notification No. 11/2017-Central Excise dated 30.06.2017 vide notification No. 02/2026-Central Excise dated 01.02.2026.

Union Budget 2026-27– A Snapshot

Regulatory

The Union Budget 2026–27 places significant emphasis on MSME growth, infrastructure financing, foreign investment liberalisation, and deepening of the corporate bond market. A comprehensive analysis is set out below:

A.MSME Growth & Financing:

- **SME Growth Fund**

  To support the scale-up of MSMEs, ₹10,000 crore SME Growth Fund is proposed to be set-up. The fund will provide equity support to MSMEs based on select criteria, with the objective of nurturing future industry "champions". This will motivate equity-based growth financing, encouraging stronger governance and long-term scalability among MSMEs.

- **TReDS Framework Expansion**
  Significant measures have been proposed in respect to Trade Receivables Discounting System (TReDS) framework:
  - Use of TReDS is now mandated for all purchases by CPSEs from MSMEs, thereby institutionalizing payment discipline and reducing receivables risk.
  - Credit guarantee support mechanism through Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) will be introduced for invoice discounting on TReDS.
  - Integrating GeM with TReDS for sharing information with financiers about government purchases from MSMEs, encouraging cheaper and quicker financing.
  - TReDS receivables will be enabled as asset-backed securities, facilitating the development of a secondary market and improving liquidity.

  These measures are expected to result in faster payments, reduced working capital stress, and improved transparency for MSMEs.

- **Compliance Support – "Corporate Mitras" –**

  To ease the compliance burden, MSMEs will be provided access to affordable compliance support through accredited para-professionals known as "Corporate Mitras", with special focus on Tier II and Tier III towns. This initiative aims to improve formalisation and compliance capacity at a reduced cost, without imposing additional regulatory obligations.

B. Infrastructure Development

- **REITs for CPSE Real Estate Asset Monetization -**

  Building on the success of Real Estate Investment Trusts (REITs), it is proposed to set up dedicated REITs for monetization of real estate assets held by CPSEs. This will help unlocking value from completed and income-generating assets, enhancing asset utilization efficiency, and recycling capital for new infrastructure and public investment.

  The move reinforces the use of SEBI-regulated market instruments for transparent, market-driven asset monetization.

- **Infrastructure Risk Sharing & Credit Support –**

  To enhance the confidence of private developers, an Infrastructure Risk Guarantee Fund is proposed to be established to provide calibrated partial credit guarantees to lenders. This measure is expected to mitigate lender risk during the construction phase, enhance the bankability of infrastructure projects, and facilitate faster execution without adding to the fiscal burden.

C. Foreign Exchange Management Act (FEMA)

- **Comprehensive Review of FDI Rules**

  A comprehensive review of the Foreign Exchange Management (Non-Debt Instruments) Rules has been proposed to create a more contemporary and user-friendly foreign investment framework, aligned with India’s evolving economic priorities. This shows a move towards simplification, rationalization, and ease of compliance.

- **Boost to Foreign Portfolio Investment –**

  To enhance the foreign participation in Indian capital market:

  - The investment limit for individual Persons Resident Outside India (PROIs) investing in listed Indian Companies through the Portfolio Investment Scheme (PIS) is proposed to be increased from 5% to 10%.
  - Additionally, the overall investment limit for all individual PROIs in a listed Indian Company is proposed to be enhanced from 10% to 24%.

- These measures aim to deepen the corporate bond market, improve price discovery, and facilitate long-term funding for corporates, particularly in infrastructure and capital-intensive sectors.

D. Corporate Bond Market Reforms

- To address structural constraints such as low liquidity and limited secondary market trading in corporate bonds, it is proposed the introduce a market-making framework, including bond derivatives indices and total return swaps.

GLOSSARY

ABBREVIATION	MEANING
AO	Learned Assessing Officer
AOP	Association of Person
APA	Advanced Pricing Agreement
AY	Assessment Year
BCD	Basic Customs Duty
BOI	Body of Individuals
Bill/ Finance Bill	Finance Bill, 2026
BE	Budget Estimate
CBDT	Central Board of Direct Taxes
CENVAT	Central Value Added Tax
CGST Act	Central GST Act, 2017
FY	Financial Year
FM	Finance Minister
GDP	Gross Domestic Product
GST	The Goods and Service Tax
IGST Act	Integrated GST Act, 2017
IFSC	International Financial Services Centre
INR/Rs.	Indian Rupees
InvIT	Infrastructure Investment Trust
ITC	Input Tax Credit
Old IT Act	Income Tax Act, 1961
IT Rules	Income Tax Rules, 1962
ITAT	Hon’ble Income Tax Appellate Tribunal
MAT	Minimum Alternate Tax
New IT Act	Income Tax Act, 2025
NBFC	Non-Banking Financial Companies
OECD	Organisation for Economic Co-operation and Development
PAN	Permanent Account Number
PCIT	Learned Principal Commissioner of Income Tax
PE	Permanent Establishment
RBI	Reserve Bank of India
RE	Revised Estimate
SEZ	Special Economic Zone
SC	Hon’ble Supreme Court
STT	Securities Transaction Tax
TDS	Tax Deduction at Source
TCS	Tax Collection at Source
TP	Transfer Pricing
TPO	Learned Transfer Pricing Officer
UOI	Union of India
UTGST	Union Territory Goods and Services Tax
UTGST Act	Union Territory Goods and Services Act, 2017
PGBP	Profit and Gains from Business and Profession
NR	Non-Resident
VAT	Value Added Tax

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