

UNION BUDGET 2026 HIGHLIGHTS

BY ANKH & ASSOCIATES

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DIRECT TAX PROPOSALS

As announced by the finance minister, the Income Tax Act, 2025 will come into effect from 1st April 2026. Following are the other proposals:

1] Changes in TCS Rates

Sl. No.	Particular (Description)	Old Rate	New Rate
1	Tendu Leaves	5%	2%
2	Alcoholic Liquor	1%	2%
3	Scrap	1%	2%
4	Minerals, being coal or lignite or iron ore	1%	2%
5	Foreign/ Overseas Tour Program	TCS will be collected if the cost of the program exceeds ₹10 lakhs. The applicable rates are: <ul style="list-style-type: none">5% on the first ₹10 lakhs, and20% on the amount exceeding ₹10 lakhs.	TCS will be collected if the cost of the program exceeds ₹10 lakhs, at the rate of 2% on the entire amount.
6	Remittance under the Liberalised Remittance Scheme for the purpose of education or medical treatment.	5% TCS is collected on the amount exceeding ₹10 lakhs.	2% TCS is collected on the amount exceeding ₹10 lakhs.

2] Changes in TDS Rates

Sl. No.	Particular (Description)	Old Rate	New Rate
1	Interest on compensation amount awarded by Motor Accidents Claims Tribunal (MACT) to an individual.	10% - With PAN 20% - Without PAN TDS Deductible on proceeds exceeding Rs. 50,000 as per Sec 194A of Income Tax Act, 1961.	NIL (No TDS). Interest on compensation amount awarded by Motor Accidents Claims Tribunal to an individual shall not be treated as income from hereon and shall be exempt from Income Tax irrespective of the amount of interest awarded by MACT.

2	Supply of manpower services (specifically brought within the ambit of payment to contractors for the purpose of TDS to avoid ambiguity).	NA	1% - Individuals / HUF 2% - Others A single contract payment exceeds ₹30,000, or Aggregate payments to that contractor exceed ₹1,00,000 in the financial year.
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- **TDS on the sale of immovable property** by a non-resident is proposed to be deducted and deposited through resident buyer's PAN based challan instead of requiring TAN.

3] No Changes in Slab Rates of Personal Income Tax

Income Tax Slabs	Income Tax Rates for FY 2025-26 (AY 2026-27)	Income Tax Rates for FY 2026-27 (AY 2027-28)
Up to Rs. 4 lakh	Nil	Nil
Rs. 4 lakh to Rs. 8 lakh	5%	5%
Rs. 8 lakh to Rs. 12 lakh	10%	10%
Rs. 12 lakh to Rs. 16 lakh	15%	15%
Rs. 16 lakh to Rs. 20 lakh	20%	20%
Rs. 20 lakh to Rs. 24 lakh	25%	25%
Above Rs. 24 lakh	30%	30%

Slab Rates in both new and old regime shall stay the same (as amended by Finance Act, 2025).

4] Extension of ITR Filing Due Dates

Particular	Old Due Date	New Due Date
ITR – 1 – Sahaj ITR – 2 (Individual and HUF without Income from Business and Profession)	31 st July of the assessment year	31 st July of the assessment year
ITR – 3 ITR – 4 – Sugam ITR – 5 (non-audit business cases or trusts)	31 st July of the assessment year	31st August of the assessment year
Revised Return	31 st December of the assessment year	31st March of the assessment year

A nominal fee of ₹1,000 or ₹5,000 is proposed for revisions made after 31st December, depending on whether the income is up to or exceeds ₹5 lakh.

5] Disclosure of Foreign Assets

To address practical issues of small taxpayers like students, young professionals, tech employees, relocated NRIs, and such others,

A proposal to introduce a one-time 6-month foreign asset disclosure scheme for these taxpayers to disclose income or assets below a certain size.

This scheme would be applicable for two categories of taxpayers namely,

(A) who did not disclose their overseas income or asset and

(B) who disclosed their overseas income and/or paid due tax but could not declare the asset acquired.

For category (A), the limit of undisclosed income/asset is proposed to be up to 1 crore rupees. They need to pay 30 percent of Fair Market Value of asset or 30 percent of undisclosed income as tax and 30 percent as additional income tax in lieu of penalty and would thereby get immunity from prosecution.

For category (B), asset value is proposed to be up to 5 crore rupees. Here, immunity from both penalty and prosecution will be available with the payment of fee of 1 lakh rupees.

6] Rationalizing Penalty and Prosecution

(a) Integrated Assessment and Penalty Proceedings

Assessment and penalty proceedings are proposed to be integrated through a common order. No interest will be levied on penalty amounts during the pendency of appeal before the first appellate authority, regardless of the appeal outcome. The pre-payment requirement is proposed to be reduced from 20% to 10%, calculated only on the core tax demand, to reduce multiplicity of proceedings and improve ease of doing business.

(b) Updated Return after Reassessment Initiation

To reduce litigation, taxpayers may be allowed to file an updated return even after reassessment proceedings have commenced, by paying an additional tax of 10% over the applicable rate. The assessing officer will base proceedings solely on such updated return.

(c) Immunity in Cases of Misreporting

The existing framework granting immunity from penalty and prosecution in cases of underreporting is proposed to be extended to misreporting cases, subject to payment of 100% of the tax amount as additional income tax, over and above tax and interest due.

(d) Conversion of Penalties into Fees

Penalties for certain technical defaults—such as failure to get accounts audited, non-furnishing of transfer pricing audit reports, and non-furnishing of statements of financial transactions—are proposed to be converted into fees. Rs. 75,000 fees for delay in one month and Rs. 1,50,000 if delay is more than one month.

(e) Rationalisation of Prosecution Framework

The prosecution framework under the Income Tax Act is proposed to be rationalised, while retaining deterrence for serious offences.

(f) Decriminalisation of Minor Offences

Non-production of books of account and documents, and TDS-related defaults where payment is made in kind, are proposed to be decriminalised. Minor offences will attract only monetary fines.

(g) Graded Prosecution for Serious Offences

Remaining prosecutions will be graded based on the severity of the offence, with only simple imprisonment prescribed, a reduced maximum term of two years, and discretion given to courts to convert imprisonment into fines.

(h) Immunity for Small Foreign Asset Non-Disclosure

Under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015, there is currently no penalty for non-disclosure of non-immovable foreign assets with an aggregate value below ₹20 lakh, it is proposed to grant immunity from prosecution for such cases with retrospective effect from 1 October 2024.

(i) Penalty provision for non-furnishing of statement or furnishing inaccurate information in a statement on transaction of crypto-assets

To ensure compliance to the provisions of section 509 of the Income-tax Act, 2025 and create a deterrence for non-furnishing of statement or for furnishing inaccurate information in respect of crypto assets in such statement, it is proposed to introduce penalty provision. Penalty of Rs. 200 per day for non-furnishing of statement and Rs. 50,000 for furnishing inaccurate particulars and failure to correct such inaccuracy is proposed to be levied.

(j) Time limit to complete search assessment

It is proposed to amend section 296 of the Income-tax Act, 2025 to treat the date of initiation of search as the reference point for determining the limitation period for block assessment. Accordingly, in the case of a specified person, the time limit is proposed to be extended from twelve months to eighteen months.

(k) Rationalising the tax rate for special income charged under section 195 of the Act

At present, certain incomes such as cash credits and unexplained investments are taxed at 60% with an additional penalty of 10% of tax. It is proposed to rationalise the tax rate to 30% on such incomes, while the penalty will be merged with the misreporting penalty for underreported income, amounting to 200% of the tax.

7] Co-operatives

- Deduction presently available to primary cooperative societies engaged in supplying milk, oilseeds, fruits, or vegetables grown by their members is proposed to be extended to also cover the supply of cattle feed and cotton seed produced by members.
- It is proposed to allow deduction of inter-cooperative society dividend income under the new tax regime, to the extent such income is further distributed to the members.
- It is proposed to grant a three-year exemption on dividend income received by a notified national cooperative federation from investments made in companies up to 31.01.2026, provided such dividends are further distributed to its member cooperatives.

8] Safe Harbour Rules

- India's software development, IT-enabled services, KPO, and contract R&D services are proposed to be consolidated into a single category of **Information Technology Services**, with a uniform safe harbour margin of **15.5%**. The eligibility threshold for availing safe harbour is proposed to be increased from **₹300 crore to ₹2,000 crore**.
- Safe harbour for IT services will be granted through an **automated, rule-based process**, without tax officer approval, and once opted, can be continued for **five consecutive years** at the taxpayer's choice.

- A **15% cost-based safe harbour** is proposed for companies providing **data centre services from India** to related entities.
- To support just-in-time logistics in electronic manufacturing, a **2% profit margin safe harbour** is proposed for non-residents warehousing components in bonded warehouses, resulting in an effective tax of about **0.7%**, making India more competitive globally.

9] Minimum Alternative Tax (MAT)

- It is proposed to exempt all non-residents who are taxed on a presumptive basis from the applicability of Minimum Alternate Tax (MAT).
- To promote migration to the new tax regime, set-off of brought-forward MAT credit is proposed to be allowed only under the new regime, limited to **25% of the tax liability** computed under that regime.
- MAT is proposed to be treated as a **final tax** with effect from 1 April 2026, eliminating further MAT credit accumulation. Accordingly, the MAT rate is proposed to be reduced from **15% to 14%**. MAT credit accumulated up to 31 March 2026 will continue to be available for set-off as stated above.

10] Buy Back Taxation

The earlier change in buyback taxation was introduced to prevent promoters from misusing the buyback route for tax advantages.

- To protect the interests of minority shareholders, it is now proposed that **buyback income will be taxed as Capital Gains for all categories of shareholders**.
- To discourage tax arbitrage and misuse, **promoters will be subject to an additional buyback tax**.

11] STT on Derivatives

Proposal to raise the STT on derivatives:

Particulars	Old Rate	New Rate
Futures	0.02%	0.05%
Options Premium	0.01%	0.15%
Exercise of Option	0.125%	0.15%

12] Sovereign Gold Bonds (SGB)

- It is proposed that the capital gains tax exemption on Sovereign Gold Bonds will be available only if the bonds are subscribed by an individual at the time of original issue and held continuously until maturity and redemption.
- It is further proposed that this exemption will apply uniformly to all Sovereign Gold Bond issuances by the Reserve Bank of India.

13] Other Proposals

1. Automated Lower / Nil TDS Certificate for Small Taxpayers

A rule-based automated scheme is proposed to enable small taxpayers to obtain lower or nil TDS certificates without approaching the Assessing Officer.

2. Simplified Submission of Form 15G / 15H

Depositories will be allowed to collect Form 15G or 15H from investors and directly share it with relevant companies, easing compliance for investors holding securities in multiple entities.

3. Fast-track APA for IT Services

The unilateral Advance Pricing Agreement (APA) process for IT services companies is proposed to be fast-tracked and completed within 2 years, extendable by 6 months on request.

4. Modified Return Facility for APA Group Entities

The benefit of filing modified returns available to an entity entering into an APA is proposed to be extended to its associated entities as well.

5. Tax Holiday for Foreign Cloud Service Providers

A tax holiday till 2047 is proposed for foreign companies providing global cloud services using data centres in India, subject to services for Indian customers being routed through an Indian reseller.

6. Tax Exemption for Toll Manufacturing

A 5-year income tax exemption is proposed for non-residents supplying capital goods, equipment, or tooling to toll manufacturers operating in bonded zones in India.

7. Tax Relief for Non-Resident Experts

To attract global talent, exemption is proposed for non-India sourced income of non-resident experts for a stay period of up to 5 years under notified schemes.

8. Alignment of ICDS with Ind AS

A joint committee of the Ministry of Corporate Affairs and CBDT is proposed to integrate ICDS requirements into Ind AS. Separate ICDS-based accounting will be removed from tax year 2027-28 onwards.

9. Deduction of Employee Contributions

Employee contributions received by employers will be allowed as a deduction if deposited in the relevant PF, superannuation, or ESI fund by the due date for filing the return under section 263(1).

10. Deduction for Non-Life Insurance Businesses

Amounts earlier disallowed due to non-deduction or non-payment of tax under section 35(b) will be allowed as a deduction in the year in which such tax is subsequently deducted or paid.

11. Disallowance of Interest on Dividend and Mutual Fund Income

No deduction will be allowed for interest expenditure incurred in relation to dividend income or income from mutual fund units, and the existing limited deduction provision is proposed to be removed.

12. Transitional Income Deeming Provision

Any sum allowed as deduction or excluded from income under the repealed Income-tax Act, 1961 will be deemed income under the Income-tax Act, 2025 if it would have been taxable under the earlier Act.

13. Rationalisation of Tonnage Tax Scheme

The tonnage tax provisions are proposed to be aligned with the Inland Vessels Act, 2021 and related rules.

14. Exemption for Disability Pension

A specific exemption is proposed for disability pension paid to Armed Forces and paramilitary personnel who are invalided out of service due to service-related disability, excluding cases of superannuation or voluntary retirement.

15. Exemption on Compulsory Land Acquisition

Income received by an individual or HUF on compulsory acquisition of land under the Right to Fair Compensation and Transparency in Land Acquisition Act, 2013 (other than section 46 cases) is proposed to be exempt.

16. Clarification on Procedural Time Limits

To address conflicting judicial views, clarifications are proposed in both the Income-tax Act, 1961 and Income-tax Act, 2025 on time limits relating to DRP proceedings, Transfer Pricing Officer orders, Document Identification Number, and reassessment notices, to ensure certainty and reduce litigation.

INDIRECT TAX PROPOSALS

The proposed measures for Customs and Central Excise focus on simplifying tariffs, supporting domestic manufacturing, boosting exports, correcting duty inversion, and improving ease of doing business and living.

1. Review of Exemptions and Tariff Simplification

Long-standing customs duty exemptions on items manufactured in India or with negligible imports will be withdrawn. Effective duty rates will be incorporated directly into the tariff schedule to simplify rate determination.

2. Export Promotion: Marine, Leather & Textiles

Duty-free import limit for inputs used in seafood exports to be increased from **1% to 3%** of FOB export turnover.

Duty-free input benefits extended to **exports of shoe uppers**.

Export obligation period extended from **6 months to 1 year** for leather, footwear, textile garments, and related products.

3. Energy Transition & Security

Customs duty exemption on capital goods for **Lithium-ion cell manufacturing** extended to battery energy storage systems.

Basic customs duty exemption on **sodium antimonate** used in solar glass manufacturing.

4. Nuclear Power

Customs duty exemption on imports for nuclear power projects extended till **2035** and made applicable to **all nuclear plants**, regardless of capacity.

5. Critical Minerals

Basic customs duty exemption proposed on capital goods used for **processing critical minerals** in India.

6. Biogas Blended CNG

Entire value of biogas to be excluded while calculating **Central Excise duty** on biogas-blended CNG.

7. Civil and Defence Aviation

Customs duty exemption on components and parts for manufacturing **civilian and training aircraft**.

Duty exemption on raw materials for aircraft parts used in **defence sector MRO activities**.

8. Electronics Manufacturing

Customs duty exemption on specified parts used in **microwave oven manufacturing** to boost value addition.

9. Special Economic Zones (SEZs)

One-time concessional duty allowed on **SEZ sales to Domestic Tariff Area (DTA)**, limited to a prescribed proportion of exports, to address global trade disruptions.

10. Ease of Living – Customs Reliefs

Customs duty on personal imports reduced from **20% to 10%**.

Basic customs duty exemption on **17 drugs**, including cancer medicines.

7 additional rare diseases added for duty-free personal imports of medicines and FSMP.

11. Customs Process Reforms

- Duty deferral period for **Tier 2 and Tier 3 AEOs** extended from 15 to **30 days**.
- Same duty deferral benefit extended to eligible manufacturer-importers.
- Validity of **advance rulings** extended from 3 to **5 years**.
- Government agencies encouraged to give preferential treatment to **AEO-certified entities**.
- Trusted importers to face minimal cargo verification.

- Electronic sealing to enable factory-to-port export clearance.
- Automatic clearance for compliant imports upon arrival.
- Warehousing to shift to a **self-declaration and risk-based audit model**.

12. Ease of Doing Business

Single digital window for approvals from all government agencies to be operational by **end of FY**, with major processes live by **April 2026**.

Immediate clearance for goods without compliance requirements after online registration and duty payment.

Rollout of **Customs Integrated System (CIS)** within 2 years.

Expansion of **AI-based non-intrusive container scanning** across major ports.

13. New Export Opportunities

Fish caught by Indian vessels in **EEZ or High Seas** to be duty-free.

Landing such fish at foreign ports to be treated as **exports**.

Safeguards to prevent misuse.

14. Boost to E-commerce Exports

Removal of the **₹10 lakh value cap per consignment** for courier exports.

Improved handling of rejected and returned consignments using technology.

15. Passenger-Friendly Baggage Rules

Revised baggage rules to increase **duty-free allowances** and provide clarity on temporary import/export of goods.

16. Dispute Resolution without Penalty

Taxpayers willing to settle disputes can close cases by paying an **additional amount in lieu of penalty**, removing the stigma associated with penalties.

Thank You