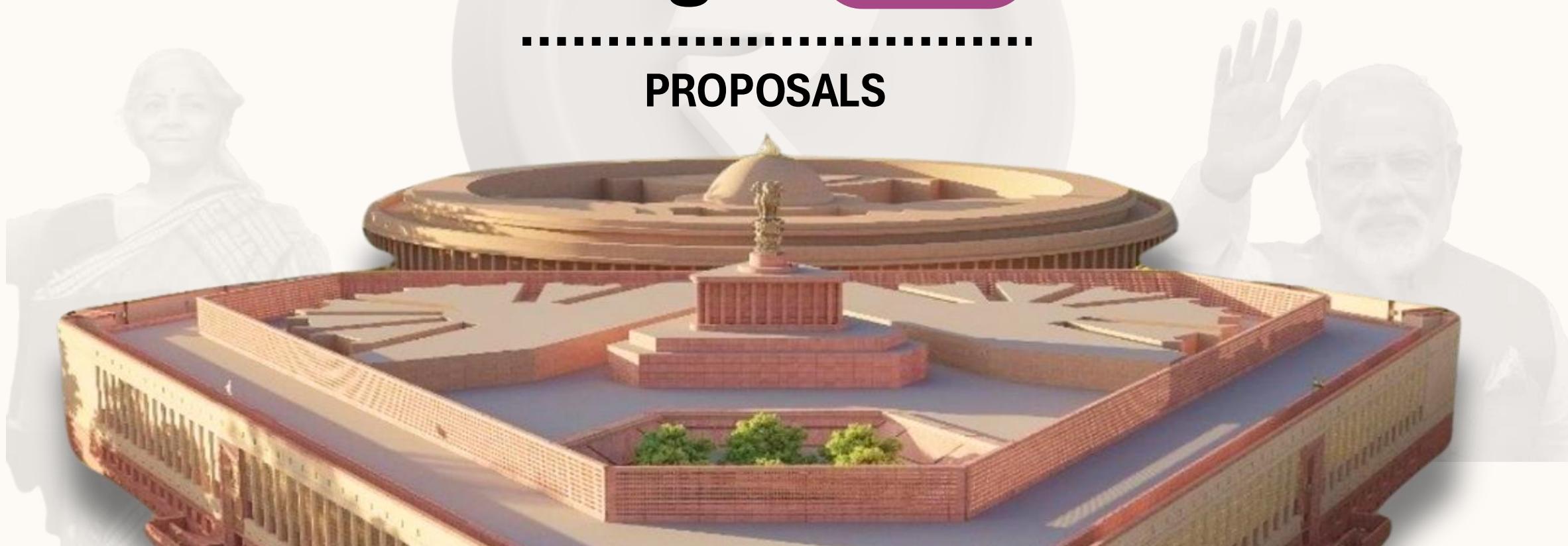


Union Budget **2026**

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PROPOSALS



Budget 2026: Reform with Resolve

- Budget 2026 charts a confident path towards Viksit Bharat, anchoring economic growth in the spirit of Kartavya, shared responsibility across the State, enterprises, and citizens.
- It reinforces a reform-first approach, where public investment, deregulation, and technology act as force multipliers for productivity, competitiveness, and employment.
- The Budget strikes a deliberate balance between fiscal consolidation and development, reflecting disciplined governance while sustaining growth momentum.
- A strong sectoral thrust emerges around infrastructure, manufacturing, MSMEs, the digital economy, and the green transition, positioning India as a global value-chain participant.
- With people-centric capacity building at its core, the Budget aligns economic ambition with accountability, inclusion, and long-term institutional strength.

EXECUTIVE SUMMARY

Executive summary

Key Income Tax Budget proposals 2026 (Snapshot)

- Revised return window extended to 12 months; updated returns can now be used to reduce losses and even after reassessment notice, subject to additional tax
- Non-audit business cases, partners of the firms get one extra month: due date moves to 31 August
- Employer can claim deduction for employees' PF/ESI contributions if deposited up to the return filing due date
- SGB redemption exemption is restricted to bonds subscribed at original issue and held continuously till maturity by the same subscriber
- Share buy-back: gains treated as capital gains;
 - For Individual promoters - effective tax is 30%
 - For Corporate promoters - effective tax is 22%
- TCS increased to 2% on liquor, scrap, and coal/lignite/iron ore; overseas tour packages now have a flat 2% TCS without threshold; LRS education/medical remittances above ₹10 lakh at 2%
- Interest on compensation awarded by Motor Accident Claims Tribunal is explicitly exempt
- No deduction for any interest expenditure against dividend or mutual fund unit income under the new Act (section 93).
- Securities Transaction Tax (STT) on options and futures is increased, making F&O trading costlier
- Many offences now carry shorter simple imprisonment or only fines; several technical penalties converted into fixed fees - Large decriminalization exercise

Executive summary

Key GST Budget proposals 2026 (Snapshot)

Area	Key change	Impact
Post-sale discounts	Delinked from agreement & invoice linkage	Greater flexibility, but mandatory ITC reversal
Refunds (Inverted Duty)	Provisional refunds extended	Improved cash flows
Export refunds	Threshold limit removed	Faster and wider refund access
Advance Rulings	Interim appellate mechanism	Reduced litigation uncertainty
Intermediary services	Place of Supply aligned with recipient location	Export benefit restored

DRIVING GROWTH ACROSS KEY SECTORS

MSME Sector

- **Equity Support**
 - ₹10,000 crore **SME Growth Fund** for scaling MSMEs
 - ₹2,000 crore **top-up** to the Self-Reliant India Fund for long-term equity
- **Liquidity & Credit Enablement**
 - **Mandatory TReDS adoption by CPSEs** to ensure faster payments
 - **Credit guarantee support** for invoice discounting on TReDS
 - **Securitisation of TReDS receivables** to enhance liquidity
- **Compliance & Ecosystem Support**
 - Introduction of '**Corporate Mitras**' (Professional support from ICAI/ICSI & ICMAI)
 - Affordable compliance and advisory support, with focus on **Tier II & Tier III towns**
- **Export Facilitation**
 - **Removal of ₹10 lakh per consignment cap** on courier exports, enabling MSMEs to scale cross-border trade.

Services Sector

Health, Care & Wellness

- 5 **Medical Value Tourism** hubs
- Expansion of **allied health institutions**
- **AYUSH push:** 3 new Ayurveda institutes + upgraded labs
- **NSQF-aligned** training for 1.5 lakh **caregivers**
- Strengthening **mental health, emergency & trauma care** at district level

IT & Digital Services

- Expanded **safe harbour** for IT services
- Tax holiday till 2047 for **foreign cloud & data-centre players**

Sports & Creative Economy

- **Khelo India Mission** with integrated talent & tech-driven training

Education, Design & Skilling

- **AVGC Creator Labs**
- New National Institute of Design (East India)
- 5 **University Townships** near industrial corridors
- Girls' hostels in **STEM institutions** across districts
- **SHE Marts** to promote women-led entrepreneurship
- Targeted skilling for women, Divyangjan & youth
- Support to ALIMCO for assistive devices, R&D & AI integration

Tourism & Cultural Services

- **National Institute of Hospitality**
- Upskilling 10,000 tourist guides at 20 iconic sites
- Digital Knowledge Grid for cultural heritage
- **Eco-tourism trails & Global Big Cat Summit**
- Development of archaeological sites & Buddhist Circuits in the North-East

Other Key Measure

- **5-year tax exemption** on global income of **non-resident service providers** under notified schemes

Manufacturing

- Revival of **200 legacy industrial clusters** to boost domestic manufacturing.
- Focus on semiconductors, electronics components, biopharma, textiles, chemicals, rare earth magnets, container manufacturing & sports
- **India Semiconductor Mission (ISM) 2.0 and Dedicated Chemical Parks**
- **5-year income tax exemption** for **non-residents** suppliers to toll manufacturers in bonded zones.
- **Safe harbour** for non-resident component warehousing in bonded warehouses.
- **BCD exemptions** on Microwave oven parts, Aircraft manufacturing components, Raw materials for aircraft MRO & defence units
- **Duty-free import limit** for seafood processing inputs increased from **1% to 3% of FOB exports**
- Duty-free inputs extended to **shoe uppers** (beyond leather/synthetic footwear)
- **Export completion timeline extended** from 6 months to **1 year** for leather, textiles & footwear exporters
- **Electronic sealing** for export cargo enabling factory-to-port clearance
- **One-time concessional duty window** for eligible SEZ units to sell into Domestic Tariff Area (DTA)

Agriculture & Allied Activities

- Targeted programmes for **fisheries, horticulture, animal husbandry, cashew, cocoa and coconut** to enhance farm and allied incomes
- **AI-enabled Agri Stack integration** for data-driven farming, productivity improvement
- **Integrated development of 500 reservoirs and Amrit Sarovars** to strengthen inland and coastal fisheries value chains
- **Duty-free treatment of fish catch** in the EEZ and High Seas
- Landing of fish at foreign ports to be **treated as export of goods**
- **Capital subsidy-linked schemes** to encourage private sector participation in Veterinary hospitals, diagnostic laboratories, Breeding and animal health infrastructure.
- **Expanded deduction** for primary co-operative societies (**cattle feed and cotton seed**)
- **Deduction for inter-co-operative dividend income** under the new tax regime.
- **3-year tax exemption** (up to 31 January 2026) on dividend income of notified national co-operative federations

Infrastructure & Logistics

- Focus on **cities with population above 5 lakh**, with emphasis on **Tier II and Tier III cities** to drive decentralised growth
- **High-Speed Mobility – Growth Connectors:** 7 environmentally sustainable High-Speed Rail corridors
 - Mumbai–Pune | Pune–Hyderabad | Hyderabad–Bengaluru | Hyderabad–Chennai
 - Chennai–Bengaluru | Delhi–Varanasi | Varanasi–Siliguri
- **Continued public capex push for:**
 - **Dedicated Freight Corridors**
 - **National Waterways**
 - **Coastal Cargo Promotion Scheme**
 - **Seaplane VGF Scheme** for regional connectivity
- **Industrial Corridors:** Purvodaya- **Integrated East Coast Industrial Corridor** to boost manufacturing, ports and logistics-led growth
- **Infrastructure Risk Guarantee Fund** to enhance lender confidence and improve credit availability
- **REIT-based monetisation of CPSE real estate assets** to unlock capital for reinvestment in infrastructure

Financial Sector

- **High-Level Committee on Banking for Viksit Bharat.**
- **Restructuring of Power Finance Corporation (PFC) and Rural Electrification Corporation (REC)** to strengthen infrastructure and power-sector financing
- **Incentives for single large municipal bond issuances.**
- Introduction of **market making framework and total return swaps (TRS)** for corporate bonds to enhance liquidity.
- **Comprehensive review of FEMA (Non-Debt Instruments) Rules** aimed at simplifying and rationalising foreign investment norms
- **Increase in Securities Transaction Tax (STT):** i. Futures: **0.02% → 0.05%** ii. Options premium & exercise: **up to 0.15%**

Energy & Sustainability

- **Clean Energy Manufacturing Support**
 - **Basic Customs Duty (BCD) exemption** on import of:
 - **Sodium antimonate for solar glass**
 - **Capital goods for processing of critical minerals** within India
- **Extended BCD exemption** on:
 - Imports of goods required for **nuclear power projects till 2035**
 - Capital goods used for **Lithium-Ion cells for battery energy storage systems**
- **₹20,000 crore outlay** for **Carbon Capture, Utilisation and Storage (CCUS)** to support industrial decarbonisation
- **Bio-energy: Exclusion of the entire value of biogas** from Central Excise duty payable on **biogas-blended CNG.**



INCOME TAX

1. Return Filing due-dates extended for non-audit businesses

Category	Old due date	New due date	Impact
Non-audit business/profession; partners of the firms	31 July	31 August	+1 month
Companies; audit cases; audit-partners	31 October	31 October	No change
Individuals (ITR-1/ITR-2, no business)	31 July	31 July	No change
Assessee's liable for Transfer pricing compliance	30 November	30 November	No change

2. Revised & Updated Returns: Enhanced Flexibility

2.1. Revised Returns

Earlier :

Revised return allowed up to 9 months from end of tax year (or completion of assessment), whichever is earlier

Now :

- Revised return allowed up to **12 months** from end of tax year (or completion of assessment, whichever is earlier).
- Returns revised after 9 months attract a specified fee up **to Rs. 5,000/-**

2.2. Updated Returns [Section 139(8A)]

- Earlier, Updated return could not be used to declare or increase a loss but explicitly didn't allow reduction of loss.
- Now allowed where original return was a loss-return and Updated return is filed **to reduce the loss** (without necessarily convert it to positive income)
- Can be filed in response to a **re-assessment notice** within the specified period, on payment of higher additional tax (base 25/50/60/70% **plus an extra 10% in such cases**);
- Income so offered is shielded from certain penalties

3. Compliance Relief – PF/ESI, TDS & TCS

3.1. Employee contributions (PF/ESI) – before vs after

Earlier :

- Employee contribution had to be deposited within the fund's statutory due date to claim deduction
- Delays beyond that could be permanently disallowed, even if paid before ITR due date

Now :

- For purposes of deduction, "due date" = return filing due date under section 263(1)
- If PF/ESI etc. is deposited any time up to ITR due date, employer gets deduction (from tax year 2026-27 onwards)

3.2. Declarations for non-deduction (Form 15G/15H equivalent)

- Investors earning dividend, interest or MF income on listed securities held in demat can file a single declaration with the depository.
- The depository will share it with all relevant payers, and those payers will, in turn, report to the Department quarterly instead of monthly.
- This reduces repetitive form-filing and operational friction for both investors and payers

3. Compliance Relief – PF/ESI, TDS & TCS

3.3. TDS/TCS Changes

- Resident individuals/HUFs purchasing immovable property from non-residents are now not required to obtain TAN for deducting TDS on the consideration.
- **'Supply of manpower'** is expressly included in the definition of "work" (contractor provisions) – TDS at contractor rates (1% / 2%), instead of 10%.
- Certificates for lower/nil TDS can be applied electronically to prescribed authorities, simplifying small taxpayer compliance*

3.4. TCS rationalization

Nature	Old	New
Alcoholic liquor	1%	2%
Tendu leaves	5%	2%
Scrap	1%	2%
Coal / lignite / iron ore	1%	2%
LRS – education / medical > ₹10L	5%	2%
Overseas tour packages	<ul style="list-style-type: none"> • 5% (up to ₹10L); • 20% (above) 	2%
Others	20% (above ₹10L)	No change

*While applications are now filed online, their approval is still processed offline, with physical verification carried out by the jurisdictional Assessing Officer

4. Corporates, IFSC Units & Investors

4.1. Minimum Alternate Tax

MAT Becomes Final Tax

- MAT converted from provisional tax into final (terminal) tax on book profits
- Rate reduced from 15% to 14% (for companies other than IFSC units)
- No new MAT credit will be created or carried forward from Tax year 2026–27 onwards

Treatment of Existing (Legacy) MAT Credit

- **Eligibility Cut-off** - Only MAT credit accumulated up to 31 March 2026 can be carried forward
- **Condition:** Old MAT credit is usable only if company opts for the New Concessional Tax Regime (Sections 201/202 of the Income-tax Act, 2025).

Utilization Limits

- **Domestic Companies:** Set-off capped at 25% of normal tax liability per year
- **Foreign Companies:**
 - i. Set-off allowed only when normal tax exceeds MAT
 - ii. Limited to difference between normal tax and MAT
- **Time Limit (Both):** Credit usable only within 15 years from year of origin

Practical Impact

- MAT becomes a permanent tax cost going forward (Companies not opting New concessional tax regime)
- Old MAT credit is protected but will unwind gradually
- Immediate full adjustment not permitted

4. Corporates, IFSC Units & Investors

4.2. IFSC & global incentives

IFSC & Offshore Banking Units (OBU) :

- Deduction on eligible income extended to 20 consecutive years (out of 25) for IFSC units; 20 years for OBUs.
- After deduction period, IFSC business income taxed at 15%.

Foreign companies:

- Tax holiday up to 2047 proposed for foreign companies providing global cloud services using Indian data centers, subject to Indian customers being serviced through a resident reseller subject to conditions prescribed
- If sales to Indian users are routed through an Indian reseller (as prescribed) → No tax chargeability in hands of the foreign company
- Exemption on income from providing capital goods/equipment/tooling to contract manufacturers located in bonded warehouses for electronics manufacturing, up to tax year 2030-31

Non-resident service provider under notified schemes:

- Proposed exemption from tax on income accruing or arising outside India to a Non-resident individual service provider under Central Government Notified Scheme

4. Corporates, IFSC Units & Investors

4.3. Investors & Capital markets

Buy-back:

- Consideration now taxed again as “**capital gains**” in shareholder hands.
- **Promoter individuals** subject to an effective **30%** tax, and **promoter companies** at **22%***, via additional levies.

Sovereign Gold Bonds :

- Capital gains exemption on redemption only if the investor subscribed at original issue and held to maturity.

STT increases:

- Options (sell) – from 0.10% of premium to 0.15%.
- Options (exercise) – from 0.125% to 0.15% of intrinsic value.
- Futures (sell) – from 0.02% to 0.05% of traded price

No deduction shall be allowed of interest expense against dividend income, income from specified mutual funds units – earlier capped at 20% of corresponding income

**The mechanism for paying tax at 22% on buybacks by promoter companies—such as whether a separate line item will be introduced—will be clarified once the ITR forms are notified*

5. Foreign Asset Disclosure Scheme – (FAST-DS - 2026)

- Inadvertent non-disclosure of foreign assets by small taxpayers risks severe prosecution under Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.
- New time-bound scheme allows for voluntary declaration of foreign assets & income upon payment of tax or a fee.
- Eligible declarants receive immunity from prosecution and additional penalties, facilitating legacy case resolution.

Type of Assets or Income	Amount Payable	Conditions
a) Undisclosed asset located outside India; or b) Undisclosed foreign income.	Aggregate of: i. 30% tax on value of undisclosed asset (as on 31st March, 2026); ii. 30% tax on undisclosed foreign income; and iii. 100% of tax in (i) & (ii).	Aggregate value \leq ₹1 crore.
a) Asset outside India from non-resident income (not declared in return on becoming resident); or b) Asset outside India from taxed income (not declared in return).	₹1 lakh fee.	Value of asset \leq ₹5 crore.

6. Decriminalization & Penalty Reform

Imprisonment Toned Down	Small Tax Amounts	Expanded Immunity
<ul style="list-style-type: none"> Most offences now prescribe simple imprisonment instead of rigorous. Maximum terms reduced (typically 2 years, 3 for repeat offences). 	<ul style="list-style-type: none"> Where tax \leq ₹10 lakh, punishment restricted to fine only—no imprisonment. Several TDS/TCS lapses fully decriminalized. 	<ul style="list-style-type: none"> Now available for misreporting too, if assessee pays additional income-tax of 100% (120% for certain incomes). Encourages early settlements.
<ul style="list-style-type: none"> New penalties of ₹200 per day for non-filing of statement and ₹50,000 for inaccurate data failure to correct such inaccuracy in statement on transaction of crypto-assets are introduced for reporting entities Earlier, penalties for under-reporting were initiated through separate proceedings after the assessment was completed. The amendment now requires penalties to be imposed within the Assessment Order itself, reducing multiple proceedings and giving taxpayers faster certainty 		

7. Charitable institutions, NPOs & Special Sectors

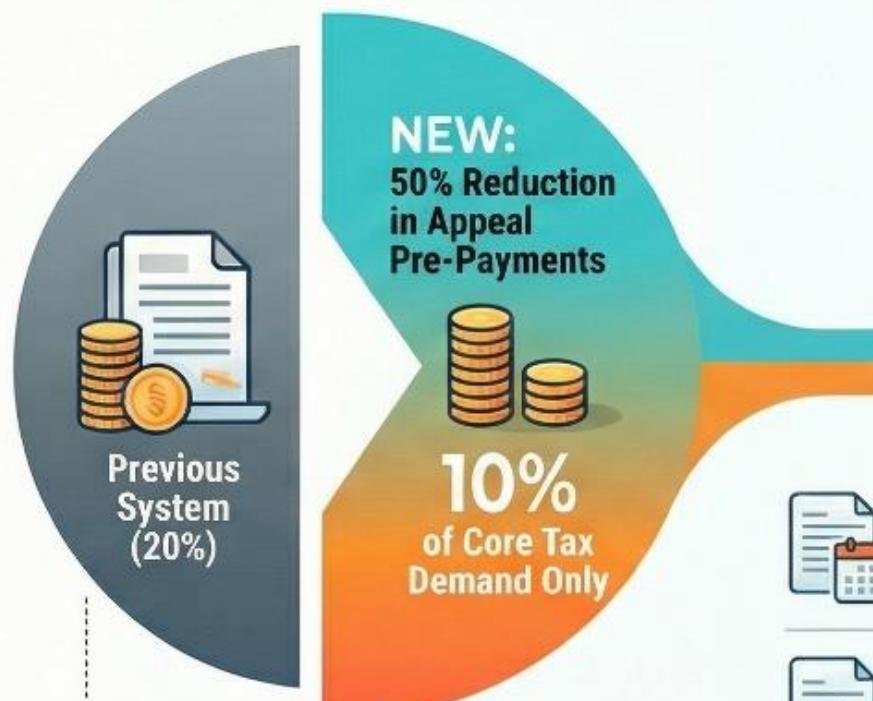
- For charities advancing "any other object of general public utility", commercial receipts no longer automatically treated as "specified violation" warranting registration cancellation.
- Tax-neutral merger allowed where a registered NPO merges into another registered NPO with same/similar objects and prescribed conditions are met; otherwise, accreted income tax applies.

8. Other tax amendments proposed

- Interest on compensation awarded by Tribunal under Motor Vehicles Act to an individual and / or his legal heir – no TDS applicable
- For AY 2026–27, the ₹2,00,000 cap on interest deduction for self-occupied house property will include both current-year and pre-construction interest instalments, aligning the 2025 Act with the 1961 Act
- To ease business and reduce litigation burden, the pre-deposit for appeals to the first appellate authority is **cut from 20% to 10%** of the core tax demand, offering major relief for taxpayers seeking a stay
- From Tax Year 2027–28 onwards, the Income Computation and Disclosure Standards (ICDS) are proposed to be merged into Ind AS, eliminating the need for separate tax-specific accounting
- Earlier, delays in filing audit reports or financial statements attracted **discretionary penalties**. The Budget replaces this with **mandatory fees** (e.g., ₹200 per day), reducing litigation over technical lapses while incentivizing timely compliance [Refer Next slide for Snapshot]

Decoding the Taxation Reforms: Rationalisation & Clarity

Appellate and Penalty Rationalisation



Restricted Calculation Base:
Pre-payments now exclude penalty and interest, focusing strictly on the disputed core tax.

Technical Defaults Converted to Fees

	Failure to get accounts audited	Graded fee: ₹75,000 to ₹1,50,000
	Failure to furnish report (Sec 172)	Graded fee: ₹50,000 to ₹1,00,000
	Failure to furnish statement of financial transactions	Converted to fee under Section 427(3)

Jurisdictional Clarity on Reassessment



Retrospective Implementation:
Clarification is effective from April 1, 2021, to resolve ongoing litigation.



Future-Proofing for 2025:
These jurisdictional rules will apply prospectively.

Defined Role of Assessing Officers (AO)

Enquiries and notices under Section 148A must be handled by the AO, not NaFAC.

9. Transfer pricing

- **APA Process Acceleration –** APA timeline has been shortened to a 2-year window (with a possible 6-month extension), expediting transfer pricing certainty for IT services and other sectors.
- The definition of "**accountant**" for safe harbour purposes, as referenced in the Budget 2026 speech, awaits clarification
- It is proposed to amend definition to clarify the 60-day period computation for TPO orders retrospectively from **1 June 2007**

Safe Harbour (SH) Amendment-

- SH eligibility threshold for certain services has been enhanced from ₹300 Cr to ₹2,000 Cr at a predetermined margins at 15.5% on cost and to be clubbed under a single category – IT Services.
- The services include software development, ITES, KPO, and contract R&D relating to Software development services. Automated approvals are also introduced to streamline the process further.
- A cost +15% is also recommended for company rendering data center services.
- SH is proposed to non-resident for component warehousing in bonded warehouse at profit margin of 2%.



GOODS AND SERVICES TAX

GST Amendments – Trade & Cashflow impact

1. Post-Sale Discounts – Compliance Simplified

Earlier	Budget 2026 change	Impact
Discount required pre-agreement & invoice linkage	Agreement & invoice linkage removed	Commercial flexibility
Credit notes limited	Credit note expressly enabled	Clear documentation
Conditional ITC reversal	Mandatory ITC reversal by recipient	Compliance certainty

2. Refund liberalization – Faster cashflows

Area	Earlier position	Budget 2026 Amendment
Inverted Duty Structure (Sec 54(6))	Provisional refund not available	90% provisional refund extended
Exports with tax payment (Sec 54(14))	Refund subject to threshold	Threshold removed

Impact : Improved working capital for manufacturers and exporters and reduced refund cycle time

GST Amendments – Trade & Cashflow impact

3. Advance Ruling Appeals – Interim solution

Section: 101A | CGST Act

- Conflicting Advance Rulings across States caused legal uncertainty.
- Budget 2026 empowers an interim appellate authority pending constitution of the National Appellate Authority.
- Enables timely resolution of multi-State Advance Ruling disputes

4. Intermediary services – Export Benefit restored

Particulars	Earlier position	Budget 2026 Amendment
Place of Supply	Supplier location	Recipient location
Export status	Generally denied	Eligible as export
GST cost	Payable in India	Zero-rated (subject to conditions)

Impact : Aligns with global GST/VAT principles and boosts cross-border service competitiveness



Thank
you

