

Bhatia & Bhatia

CHARTERED ACCOUNTANTS



UNION BUDGET 2026-27

FOREWORD

We are pleased to present BnB's comprehensive analysis of the Union Budget 2026-27.

The 2026-27 Union Budget arrives at a transformative moment for the Indian economy—one marked by technological advancement, global realignments, and the nation's continued pursuit of the "Viksit Bharat 2047" vision. This Budget reinforces the government's commitment to long-term stability by introducing structural reforms, modernizing India's tax architecture, and strengthening administrative efficiency.

A landmark development this year is the transition to the new Income-tax Act, 2025, ushering in a simpler, rationalized, and technology-driven direct tax regime. The Budget further emphasizes ease of doing business, promotes investor confidence, and provides clarity across TDS/TCS, international taxation, transfer pricing, and compliance frameworks. Significant steps toward decriminalization of minor offences, automated approvals, and enhanced dispute-resolution mechanisms reflect the government's intention to foster a more predictable and taxpayer-friendly environment.

On the indirect tax front, targeted amendments in GST and Customs laws aim to streamline valuation, expand refund mechanisms, modernize customs administration, and align India's tax system with global best practices. Measures benefiting exporters, MSMEs, and cross-border service providers underscore the Budget's focus on boosting competitiveness.

Additionally, strategic incentives for data centers, IFSC entities, cloud-service providers, and foreign investors highlight India's ambition to position itself as a global hub for innovation, financial services, and high-value digital activity. We trust that this analysis provides clear insights into the evolving tax and regulatory landscape and helps stakeholders evaluate the impact of the Budget on their businesses and sectors.

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KEY HIGHLIGHTS: UNION BUDGET 2026-27 (DIRECT & INTERNATIONAL TAX)

A) MAJOR STRUCTURAL CHANGES

New Income Tax Act, 2025

With effect from 1 April 2026, the Income-tax Act, 2025 will replace the Income-tax Act, 1961. The new legislation was enacted by Parliament and received the President's assent on 21 August 2025. It introduces a simplified framework for India's direct tax system, modernizing provisions that have governed income taxation for more than six decades.

Tax Slabs

No changes are made in this budget to personal income tax slabs for FY 2026-27, maintaining the stability.

Assessment

It is now clarified that an assessment will not be treated as invalid merely due to a mistake, defect or omission in quoting the Document Identification Number (DIN).

Motor Accident Claims

With effective from 1st April, 2026, A new provision will be applicable to exempt any income in the nature of interest awarded under the Motor Vehicle Act, 1988, to an individual or his legal heir awarded by Motor Accident Claims Tribunals to natural persons and no TDS will be deducted on it.

B) TCS & TDS RATIONALIZATION

Rationalization of rates of TCS

The rate of Tax Collected at Source (TCS) has been rationalized as follows:

- For education or medical treatment under LRS and the sale of overseas tour program package the TCS rate is reduced from 5% to 2%.
- On the sale of alcoholic liquor, scrap, minerals/ iron ore, and tendu leaves, the rates of TCS have been changed to 2%.

TDS on Manpower Services

Effective 1 April 2026, the definition of "work" for payments to residents has been amended to explicitly include the supply of manpower services. As a result, such payments will now be treated as contractual payments and will be subject to Tax Deduction at Source (TDS) – TDS @ 1% if payments are made to individual or Hindu Undivided Families (HUFs) or @ 2% if payments made to other entities. This amendment removes ambiguity and ensures clarity in the treatment of manpower service contracts under the TDS framework.

Exemption from TDS deduction

Interest income paid or credited to any cooperative society engaged in the business of banking (including land mortgage banks) shall be exempt from TDS.



Nil Deduction Certificates

To provide relief to small taxpayers, the Budget introduces a rule-based automated online system for issuing lower or nil TDS deduction certificates. In addition, a single-window facility has been created for filing Form 15G/15H with depositories. These forms, submitted for exemption from TDS on dividends and interest, will now be accepted centrally by depositories and transmitted to all relevant companies, thereby simplifying compliance and reducing duplication.

TDS Defaults Decriminalized

Several TDS-related defaults have been decriminalised, like Failures to deduct/pay TDS where the payment is made in kind

C) CORPORATE & INVESTMENT TAX

Taxation of Share Buybacks

As part of Budget 2026, the government has overhauled the tax treatment of share buybacks. Instead of being taxed as dividend income, the consideration received by shareholders will now be classified as capital gains, thereby restoring the regime that applied prior to October 2024. This change enables shareholders to benefit from concessional capital gains tax rates. To ensure clarity, the effective tax rate has been fixed at 30% for individual promoters and 22% for promoter companies, aligning taxation with market practices and reducing distortions.

Increase in STT

The rate of Securities Transaction Tax (STT) is proposed to be increased on the sale of options from 0.1% to 0.15%, on exercised options from 0.125% to 0.15% and on sale of futures from 0.02% to 0.05%. This change will reduce excessive speculative trading and push investors toward longer-term strategies.

Interest expense disallowed

As per the existing provisions of the Income-tax Act (ITA), taxpayers are allowed a deduction for interest expenditure up to 20% of dividend income while computing income under the head 'Income from other sources'. Such deduction shall not be allowed from tax year 2026–27 (AY-2027-28) onwards.

Sovereign Gold Bonds (SGBs)

Capital gain Tax exemption on redemption of SGBs is now restricted to original subscribers only and not to bonds purchased from the secondary market.



D) COMPLIANCE & ADMINISTRATION

Revised Returns

The budget 2026 extends the time limit for filing of revised return from nine months to twelve months from the end of the relevant tax year to accommodate revision of belated tax returns, which, as per existing timeline coincides with a period of nine months i.e. from 31st Dec to 31st March with a nominal fee of of INR 1,000 where income does not exceed INR 5 lakh and in other cases, fee of INR 5,000.

ITR Filing Due Date Extended

Due date for filing tax return by the taxpayers, including trusts, having income from profits and gains of business or profession whose accounts are not required to be audited and partners, including their spouse, of a firm not required to get accounts audited, is proposed to be extended to 31 August from 31 July of the financial year succeeding the tax year.

Updated Returns

Currently, taxpayers are not permitted to file an updated return to disclose additional income for a tax year if the return is one of loss, or if assessment/reassessment proceedings are pending or already completed. Under the new provisions, updated returns may now be filed in cases where:

- (a) a reported loss is reduced, or
- (b) a reassessment notice has been issued.

However, when an updated return is filed in response to a reassessment notice, the taxpayer will be required to pay an additional tax of 10% over and above the extra tax payable on the aggregate of tax and interest due on such filing.

Decriminalization of Minor Offences

It has been proposed to fully decriminalise certain minor tax offences, replacing imprisonment with fines. Offences such as failure to produce books of accounts or defaults in tax withholding where payments are made wholly or partly in kind (including perquisites, lottery winnings, online games, or transfer of virtual digital assets) will now attract monetary penalties instead of prosecution. For other defaults, punishment has been softened—rigorous imprisonment replaced with simple imprisonment, maximum terms reduced, and cases involving defaults up to ₹10 lakh limited to fines only.

Additionally, penalties for technical lapses (like failure to get accounts audited or furnish reports) will be replaced with fixed fees. Immunity provisions have also been extended to cases of misreporting, subject to payment of 100%–120% of tax on under-reported income.



E) CHANGES IN MINIMUM ALTERNATE TAX (MAT) PROVISIONS

Current Provisions under ITA 1961

- Companies are liable to pay MAT at 15% plus applicable surcharge and cess on book profits, if tax payable under normal provisions is less than MAT liability.
- Companies are liable to pay MAT at 15% plus applicable surcharge and cess on book profits, if tax payable under normal provisions is less than MAT liability.
- Book profit is computed by making specified upward and downward adjustments to the profit disclosed in the profit and loss account prepared under applicable corporate law.
- Companies operating in an International Financial Services Centre (IFSC) are subject to MAT at a concessional rate of 9%.
- Difference between tax under normal provisions and MAT paid is available as MAT credit, which can be carried forward for 15 tax years and utilized when normal tax exceeds MAT liability.
- For domestic companies opting for the concessional tax regime (CTR) of 22%, no set-off of past MAT credit is allowed in the year of transition or thereafter.

Amendments under Finance Bill 2026 (Applicable from Tax Year 2026–27)

- MAT Rate Revision
 - Reduced from 15% to 14% for both domestic and foreign companies.
 - No change for IFSC units (continues at 9%).
- Domestic Companies – Old Regime
 - MAT to be treated as a final tax.
 - No new MAT credit will be allowed.
 - No set-off of past MAT credit permitted.
- Domestic Companies – Transitioning to CTR (22%)
 - Set-off of MAT credit allowed up to 25% of the normal tax liability.
 - Balance MAT credit can be carried forward and utilized similarly (up to 25% of normal tax liability).
 - MAT credit can be carried forward for 15 succeeding tax years from the year in which it first became allowable.
- Foreign Companies
 - No change in carry forward and set-off provisions.
 - MAT will be inapplicable to foreign companies opting for presumptive taxation.
- Exemptions introduced: Companies operating cruise ships and Companies providing services or technology in India to resident companies engaged in electronic manufacturing under a notified scheme.

Effective Date- These amendments apply from tax year 2026–27 onwards.



F) OTHER PROVISIONS

Deductibility of an employee's contribution to specified funds

The FM has eased compliance by extending the timeline for claiming deductions on employees' contributions to specified funds such as Provident Fund and Employees' State Insurance. Earlier, deductions were allowed only if the contributions were deposited within the statutory due date prescribed under respective laws. Going forward, from tax year 2026–27, deductions will be permitted as long as the contributions are deposited on or before the due date for filing the income tax return, even if not paid within the statutory due date. This change provides greater flexibility to employers and reduces the risk of disallowance due to minor delays.

Reduced tax rates on unexplained cash, credits

It has been proposed to reduce the tax burden on unexplained credits, investments, assets, expenditure, or transactions through negotiable instruments such as hundis. The tax rate has been lowered from 60% to 30%, and the additional penalty of 10% has been removed. However, such cases will still attract a penalty of 200% for misreporting of income, unless the taxpayer opts for immunity by paying 120% of the tax payable on such income. These amendments will apply from tax year 2026–27 onwards, aiming to rationalize penalties while maintaining deterrence against misreporting.

Relaxation from prosecution under Black Money Act (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BMA)

Budget 2026 introduces corrective amendments to the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015. In line with existing penalty provisions, certain defaults—such as failure to furnish returns relating to foreign income or assets, non-disclosure of information, or furnishing inaccurate details—will now be excluded from prosecution. This relaxation apply retrospectively from 1 October 2024, ensuring that such cases are dealt with through monetary penalties rather than criminal proceedings, thereby reducing litigation and aligning enforcement with proportionality.

Penalty Provisions for Crypto-Asset Compliance

Specific penalty provisions have been introduced for failures in furnishing or inaccuracies in statements relating to crypto-asset procedures. A penalty of ₹200 per day will apply for failure to furnish the required statement, while a fixed penalty of ₹50,000 will be levied for furnishing inaccurate particulars, failing to correct them, or non-compliance with due diligence requirements under the law. These provisions will take effect from 1 April 2026, signaling stricter compliance expectations from the Assessee in the rapidly growing digital asset sector.



Block Assessments

Budget 2026 introduces key reforms to block assessments. For third parties or “other persons,” assessments will now be restricted only to the specific years in which undisclosed income is detected, instead of applying the earlier six-year block uniformly. For example, if incriminating material relates to just one tax year, the assessment will be confined to that year alone. Additionally, the time limit for completing block assessments has been extended from 12 months to 18 months, giving tax authorities more flexibility while easing compliance for taxpayers.

G) INTERNATIONAL TAXATION

Foreign Asset Disclosure Scheme and Immunity

To simplify reporting compliance for small taxpayers, a one-time six-month disclosure window has been introduced to regularise the reporting of foreign assets and income. This scheme targets two specific groups:

- **Category A (Total Non-Disclosure):** If you have not disclose both income and assets worth up to ₹1 crore, you must pay a 30% tax on the asset value (as of 31 March 2026) and/or a 30% tax on the income. You must also pay a 100% penalty on that tax amount. In exchange, criminal proceedings shall not be initiated.
- **Category B (Missing Asset Reporting):** If you paid your taxes but forgot to declare the overseas asset (worth up to ₹5 crore), you only need to pay a flat fee of ₹1 lakh. This clears you of all penalties and prosecution.

Relief for Small Assets- Effective retrospectively from 1 October 2024, taxpayers are granted immunity from prosecution for failing to report non-immovable foreign assets (such as bank accounts or shares) valued at less than INR 20 lakh. This provision offers protection to those who omitted these smaller holdings due to oversight, or some doubt in mind.

Data Centre Incentives

A tax holiday has been granted until 2047 for foreign companies providing global cloud services through Indian data centres. Furthermore, any income earned by a foreign company from procuring data centre services from a specified Indian data centre shall be fully exempt from tax until 2047.

IFSC Benefits

The tax holiday for units operating in the International Financial Services Centre (IFSC) has been extended from 10 years to 20 years, within a block of 25 years. During the non-holiday periods, eligible income shall be taxed at a concessional rate of 15%.



PROI (Persons Resident outside India) Investment

Budget 2026 has doubled the equity investment limits for Persons Resident outside India (PROI) under the Portfolio Investment Scheme (PIS). The individual cap has been raised from 5% to 10%, while the aggregate ceiling has been increased from 10% to 24%. This measure is designed to attract greater foreign capital and deepen participation in Indian equity markets.

No TAN requirement for NRIs for Property Transactions

It has been proposed to remove the requirement for resident individuals and Hindu Undivided Families (HUFs) to obtain a Tax Deduction and Collection Account Number (TAN) when purchasing immovable property from non-residents. Instead, the Permanent Account Number (PAN) can be used for deducting tax at source on the consideration paid. This measure simplifies compliance and reduces procedural burden for property transactions involving NRIs.

NRI's Foreign Sourced Income exempted

Non-resident individuals shall be exempt from tax on foreign-sourced income for five consecutive tax years when rendering services in India under a notified government scheme (details of which are still awaited).



TRANSFER PRICING





KEY HIGHLIGHTS: UNION BUDGET 2026-27 (TRANSFER PRICING)

A) RE-EVALUATION OF SAFE HARBOUR RULES

Existing

Currently, the Safe Harbour regime categorizes IT sector services into four distinct groups: software development services, IT enabled services, knowledge process outsourcing, and contract R&D services related to software development. Each category is subject to different revenue thresholds and Safe Harbour rates.

Amendment

- It is proposed that the software development services, information technology enabled services, knowledge process outsourcing services and contract research and development related to software development services would be clubbed under a single category of Information Technology Services and subject to a common safe harbour margin of 15.5% on cost.
- The maximum threshold to avail safe harbour provisions increased from INR 300 crores to INR 2000 crores, with an option to apply it for a continuous period of five years, through an automated, rule based approval process.
- A safe harbour of 15% on cost would be introduced for resident companies providing data centre services to a foreign related entity, which in turn provides cloud services to customers outside India.

B) ADVANCE PRICING AGREEMENTS (APAs)

- For APAs signed on or after April 1, 2026 and for years beginning from that date, the eligibility to file a return, or a modified income tax return pursuant to an APA, extended to Associated Enterprises ('AEs') of the taxpayers signing the APA. This would enable the AEs to claim refund of any additional taxes paid by it or withheld from its income. The AEs to furnish such return within a period of three months from the end of the month in which the APA is signed.
- Unilateral APAs for companies engaged in IT services announced to be fast tracked with an endeavour to conclude within a period of two years, extendable by a further six months at the taxpayer's request.

C) CLARIFYING TIME LIMIT FOR COMPLETION OF ASSESSMENT UNDER SECTION 144C

Timelines provided in section 144C of the IT Act, 1961 operate for finalisation of assessments, notwithstanding the time limit provided in sections 153 and 153B of the IT Act, 1961. The clarification comes into retrospective effect from 1 April 2009 for section 153 and from 1 October 2009 for section 153B. A similar amendment is to be carried out in the IT Act.



D) MANNER OF COMPUTING 60 DAYS FOR PASSING THE TRANSFER PRICING ORDER

Restoring the legislative intent by reversing judicial precedents and defining assessment timelines Clarification on the manner of computation of 60 days for Transfer Pricing Officer to pass the transfer pricing order for a tax year. Uncertainty around due date arose mainly on counting of 60-days' time limit from the due date for passing the draft assessment order.

Proposal has been made to clarify the manner of computing the 60-day time limit available to the TPO for passing an order determining the ALP.

Under Income-tax Act, 1961

S. No	Scenario	Timeline to pass TPO order
1	Where assessment limitation expires on 31 March (non-leap year)	30 January of that year
2	Where assessment limitation expires on 31 March (leap year)	31 January of that year
3	Where assessment limitation expires on 31 December	1 November of that year

Under Income-tax Act, 2025

S. No	Scenario	Timeline to pass TPO order
1	Where assessment limitation expires on 31 March	31 January of that year
2	Where assessment limitation expires on 31 December	31 October of that year

- *The amendment will take effect retrospectively from 1 June 2007.*

E) PENALTY CONVERTED INTO FEE

Penalty for not furnishing the transfer pricing audit report is proposed to be replaced with a fee, set at INR50,000 for delays up to one month and INR1,00,000 for delays beyond one month.

INDIRECT TAX

Goods and Services Tax





KEY HIGHLIGHTS: UNION BUDGET 2026-27 (INDIRECT TAX)

NEW INDIRECT TAX

The Finance Bill, 2026 proposes several important amendments across GST and Customs laws aimed at clarifying valuation, refunds, appellate mechanisms, place of supply rules, and customs administration. A snapshot of the key changes and their implications are set out below.

A. CENTRAL GOODS AND SERVICES TAX ACT, 2017

Post-Supply Discounts – Credit Note & ITC Reversal Mandatory

- Section 15(3)(b) is amended to remove the requirement of linking post-sale discounts with a pre-existing agreement.
- Post-supply discounts will reduce taxable value only when:
 - A credit note is issued under section 34, and
 - The recipient reverses proportionate input tax credit (ITC).
- Impact: Clear linkage established between valuation reduction and ITC reversal; eliminates disputes on eligibility of post-sale discounts.

Section 34 Aligned with Discount Valuation Provisions

- Section 34 is amended to explicitly cover discounts referred under section 15(3)(b).
- Post-supply discounts are now formally recognised as a valid ground for value adjustment through credit notes.
- Impact: Harmonisation of valuation and credit note provisions, ensuring consistent tax treatment.

Refund Provisions Expanded & Liberalised (Section 54)

- Key amendments include:
 - Provisional refunds extended to refunds arising from inverted duty structure.
 - Refund of unutilised ITC explicitly covered under section 54(6).
 - Export refunds (with payment of tax) excluded from section 54(14) restrictions.
 - Threshold of ₹1,000 removed for sanction of refunds in case of goods exported with payment of tax.
 - Impact: Faster cash flow, reduced procedural hurdles, and improved refund certainty for exporters and manufacturers.



Interim Appellate Mechanism for Anti-Profiteering Appeals

- New section 101A(1A) empowers the Government to notify an existing Tribunal to hear appeals under section 101B until the National Appellate Authority is constituted.
- Provisions of section 101A(2)–(13) will not apply to such notified authority.
- Effective from: 1 April 2026
- Impact: Ensures continuity and avoids litigation vacuum in anti-profiteering appeals.

B. INTEGRATED GOODS AND SERVICES TAX ACT, 2017

- Place of Supply for Intermediary Services Revised
 - Clause (b) of section 13(8) is deleted.
 - Intermediary services will now fall under section 13(2).
 - Place of supply = Location of recipient.
 - Impact: Major relief for service exporters; aligns intermediary services with destination-based taxation and reduces cross-border GST disputes.

C. CUSTOMS ACT, 1962

1. Penalty Treated as Charge for Non-Payment of Duty

- Penalty paid under section 28(5) is deemed a charge for non-payment of duty.
- Impact: Strengthens recovery powers by allowing penalty recovery using mechanisms applicable to customs duty.

2. Advance Ruling Validity Extended

- Validity of advance rulings increased from 3 years to 5 years.
- Existing advance rulings may be extended to 5 years from original date, on request.
- Impact: Greater certainty and reduced compliance cost for long-term business planning.

3. Statutory Recognition of Inter-Warehouse Transfers

- New provision expressly permits transfer of warehoused goods between warehouses, subject to prescribed conditions.
- Impact: Facilitates logistical flexibility while retaining regulatory control.



4. Expansion of Section 84 – Custody Included

- Section 84 amended to cover “custody and examination” of goods.
- Impact: Clarifies enforcement authority and administrative control during customs proceedings

5. Phased Amendments to Customs Tariff

- Amendments to the First Schedule of the Customs Tariff Act, 1975 introduced in stages:
 - Certain changes effective immediately,
 - Additional changes from 1 April 2026, and
 - Further amendments from 1 May 2026.
- Impact: Businesses should review tariff classifications and duty impact in line with applicable effective dates.



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About Us

Founded in 1981, our firm is dedicated to providing unparalleled financial services to our clients and assisting in navigating the business landscape. With a commitment to deliver exceptional services while upholding the highest ethical standards, our team of over 125+ professionals, led by 11 experienced partners, brings a diverse range of expertise to the table. This allows us to act as your trusted advisor for all aspects of your financial needs, including Audit & Assurance, Taxation (both domestic and cross-border), Valuations, Mergers & Acquisitions and Corporate Finance. We operate as a progressive and well-structured full-service firm with a Pan India presence and a network of various international forums, groups & chambers. We deliver end-to-end business solutions through a dedicated panel of experts, maintaining long-term trust and reliance from our clients.

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