

VK Dinesh & Senthilraja
Chartered Accountants

Budget 2026



B-1, First Floor, Shanthi Apartment | 18, T.T.K Road 1st Cross Street
Alwarpet, Chennai - 600 018 | India

☎ +9144 - 2435 0011 / 7960 4043

🌐 www.vkds.in

Dear Reader,

Wishes and Greeting from VKDS ...!!

We are glad to present this Union Budget 2026 compilation, as a part of our own commitment to strengthen your statutory compliance by providing you with routine and periodical updates.

In this presentation we have focused on

○ Direct Tax and Indirect tax amendments on Union Budget 2026. Unless otherwise specified all amendments are applicable with effect from 01 April 2026.

We have included in this document the major proposals and amendments which are significant and provisions which would have an impact on the day-to-day operations of your business.

If you require any clarification related to this document, feel free to reach us.

We hope you find this analysis useful, and we also solicit your feedback on this update.

Note : The new Income Tax Act 2025 comes into effect from 1st April, 2026.

Towards Growth...

Contents

Part A- Direct Tax proposals	4
1. Individual/HUF Tax Rates	4
a) New tax Regime for Individual assesses irrespective of age limit (except HUF)	4
b) Old tax Regime for Individual assessee except senior citizens and HUF.....	5
c) Old tax Regime for Resident senior citizen assessee aged more than 60 years but less than 80 years.....	5
d) Old tax Regime for Resident senior citizen assessee aged 80 years or more.....	5
e) Surcharge for Individuals	5
2. Foreign Assets of Small Taxpayers - Disclosure Scheme 2026 – (FAST-DS 2026)	6
3. Taxation of Buy-Back of shares (Section – 69)	8
a) Buyback of Listed Equity Shares	8
b) Buyback of Shares other than Listed Equity Shares	8
4. MAT Reforms: Shift to Final Tax and Regime Transition (Applicable from TY 2026–27 onwards) ...	8
5. TDS & TCS	9
a) TDS.....	9
(Note : TDS is covered u/s 393 in Income Tax Act, 2025)	9
b) TCS.....	10
6. Tax Holiday	10
a) Tax holiday for foreign cloud service companies	10
b) 5-year tax exemption for non-residents in toll manufacturing.....	10
7. Litigation & Compliance Reforms	11
8. Other Key Highlights	11
a) Rationalisation and Decriminalisation of Tax Penalties.....	11
b) Integration & Simplification of Penalty Proceedings.....	11
c) Interest on Penalties Held During Appeal	11
d) Increase in tax rates of Securities Transaction Tax ('STT').....	12
e) Increase in Penalty Caps	12
f) Unexplained Income Tax & Penalty Rationalisation.....	12
g) Recent Crypto-Reporting Penalties.....	12
h) Section 428 – Levy of Fees for defaults in furnishing return(Penalties).....	12
i) IFSC : Strengthening Global Financial Hub.....	13
j) Penalty for failure to furnish Statement of Financial Transaction (SFT).....	13
k) Expansion in scope of immunity from penalty and prosecution	13
l) Rationalization of Due Date for Employee Contributions to ESI and Related Funds	14
m) Non-allowability of Interest as a deduction against Dividend Income.....	14
n) Allowing Filing of Updated Return After Issuance of Reassessment Notice.....	14
o) Changes in procedure of issuance of Lower/No Deduction Certificate	15
p) Filing of Declaration for No Deduction to a Depository	15

q) Relaxation from obtaining TAN by an Individual/HUF, where the seller of immovable property is Non-resident	16
r) Rationalising due dates for filing of return of Income.....	16
s) Jurisdiction to issue notice u/s 148 & procedure u/s 148A (Faceless setup)	16
t) Assessments not invalid due to mistake in DIN (Document Identification Number)	16
9. Transfer Pricing	17
a) Safe Harbour Reforms for IT service sector	17
10. Due dates	18
Part B- Indirect Tax proposals	19
1. GST	19
a) Key Highlights	19
b) Exclusion of discount given from Value of Supply.....	19
d) Provisional Refund in case of Inverted duty structure	20
e) Amendment in Place of Supply for Intermediary services	20
f) National Appellate Authority for Advanced Ruling.....	21
2. Customs	21
a) Fishing Expedition.....	21
b) Advance Ruling.....	21
c) Warehouse	22
d) Deferred Payment of Duty	22
e) Baggage Rules, 2026.....	22
f) Miscellaneous.....	24
3. Customs Tariff	24
4. Excise Duty	26
DISCLAIMER	26

Part A- Direct Tax proposals

DIRECT TAX

1. Individual/HUF Tax Rates

a) New tax Regime for Individual assesses irrespective of age limit (except HUF)

Total Income	New Tax Regime
	TY 2026 - 27
Up to 4,00,000	Nil
From 4,00,001 to 8,00,000	Nil - after rebate under section 87A*
From 8,00,001 to 12,00,000	Nil - after rebate under section 87A*
From 12,00,001 to 16,00,000	Rs.62,400 + 15.60% [tax rate 15% + health and education cess 4% thereon] of income exceeding Rs.12,00,000
From 16,00,001 to 20,00,000	Rs.1,24,800 + 20.80% [tax rate 20% + health and education cess 4% thereon] of income exceeding Rs.16,00,000
From 20,00,001 to 24,00,000	Rs.2,08,000 + 26.00% [tax rate 25% + health and education cess 4% thereon] of income exceeding Rs.20,00,000
From 24,00,001 to 50,00,000	Rs.3,12,000 + 31.20% [tax rate 30% + health and education cess 4% thereon] of income exceeding Rs.24,00,000
From 50,00,001 to 1,00,00,000	Rs.12,35,520 + 34.32% [tax rate 30% + surcharge 10% thereon] + health and education cess 4% thereon] of income exceeding Rs. 50,00,000
From 1,00,00,001 to 2,00,00,000	Rs.30,85,680 + 35.88% [tax rate 30% + surcharge 15%** thereon] + health and education cess 4% thereon] of income exceeding Rs.1,00,00,000
From 2,00,00,001 to 5,00,00,000	Rs.72,54,000 + 39% [tax rate 30% + surcharge 25%** thereon] + health and education cess 4% thereon] of income exceeding Rs. 2,00,00,000
From 5,00,00,001	Rs.1,89,54,000 + 39% [tax rate 30% + surcharge 25%** thereon] + health and education cess 4% thereon] of income exceeding Rs.5,00,00,000

- Under Section 87A, A Resident Individual would be entitled to a rebate of Rs. 60,000 will be available, thus resulting in a net nil tax payable for people earning up to 12 lakhs p.a.
- Salaried employees and pensioners need not pay tax up to Rs 12.75 lakh, due to the standard flat deduction available to them
- However, this rebate does not apply to income taxed at special rates Such as Capital Gain.

b) Old tax Regime for Individual assessee except senior citizens and HUF.

Total Income	Old tax Regime	
	TY 2026-27	FY 2025 -26
Up to 2,50,000	Nil	Nil
From 2,50,001 to 5,00,000	5%	5%
From 5,00,001 to 10,00,000	20%	20%
Above 10,00,000	30%	30%

*Under old tax regime rebate u/s 87A will be available for those resident individuals whose income is less than 5,00,000 (i.e up to Rs.12,500)

c) Old tax Regime for Resident senior citizen assessee aged more than 60 years but less than 80 years

Total Income	Old tax Regime	
	TY 2026-27	FY 2025 -26
Up to 3,00,000	Nil	Nil
From 3,00,001 to 5,00,000	5%	5%
From 5,00,001 to 10,00,000	20%	20%
Above 10,00,000	30%	30%

*Under the old tax regime rebate u/s 87A will be available for those whose income is less than 5,00,000 up to Rs.12,500

d) Old tax Regime for Resident senior citizen assessee aged 80 years or more.

Total Income	Old tax Regime	
	TY 2026-27	FY 2025 -26
Up to 5,00,000	Nil	Nil
From 5,00,001 to 10,00,000	20%	20%
Above 10,00,000	30%	30%

*Under the old tax regime rebate u/s 87A will be available for those whose income is less than 5,00,000 i.e up to Rs.12,500

**Resident Senior Citizens more than 75 or more years having only Pension and Interest Income are exempted from filing Income Tax Return

e) Surcharge for Individuals

Total Income	Old tax Regime	New tax Regime
Total Income < 50 lacs	0%	0%
Total Income > 50 lacs to up to 100 lacs	10%	10%
Total Income > 100 lacs to up to 200 lacs	15%	15%
Total Income > 200 lacs to up to 500 lacs**	25%	25%
Total Income > 500 lacs**	37%	25%

* Note: Health and Education Cess at 4% to be calculated on Tax and Surcharge

** The Income mentioned above is excluding income by way of dividend or income under the provisions of section 111A and section 112A of the Income-tax Act, However the excluded income is subject to 15% Surcharge Rate. (Maximum rate of surcharge on tax payable on income chargeable to tax under section 111A, 112A, 112 115AD(1)(b) and dividend income shall be 15%.)

2. Foreign Assets of Small Taxpayers - Disclosure Scheme 2026 – (FAST-DS 2026)

Current consequences

- Section 10 – Tax on undisclosed foreign income and assets
 - ✓ 30% tax on the value of undisclosed foreign income/assets.
- Section 41 – Penalty for undisclosed foreign income and assets
 - ✓ Penalty equal to three times the tax (i.e., 90% of value).
- Section 43 – Penalty for failure to furnish information or disclose foreign assets in the return of income
 - ✓ Fixed penalty of ₹10,00,000 for non-disclosure of foreign assets in the return (subject to prescribed thresholds/exceptions).
- Sections 49 to 54 – Prosecution provisions
 - ✓ Rigorous imprisonment and fine for wilful failure to disclose foreign income/assets and related offences.

Proposed

The Bill proposes to introduce the Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026 (FAST-DS 2026) under Chapter IV (Sections 114 to 128) as a one-time voluntary compliance window of six months. The Scheme shall apply to resident and specified non-resident taxpayers for disclosure of undisclosed foreign assets and undisclosed foreign income pertaining to any previous year ending on or before 31 March 2026. The objective of the Scheme is to regularise legacy and inadvertent non-disclosures by small taxpayers, such as ESOPs/RSUs from foreign employment, dormant or low-value foreign bank accounts of former students, savings or insurance policies of returning non-residents, and assets held during overseas deputation. Under the Automatic Exchange of Information (AEOI) framework, information is received regarding foreign financial assets held by Indian PAN holders, and it has been observed that many taxpayers have not disclosed such foreign assets in their returns. To provide relief in small cases, it is proposed that the strict provisions shall not apply to foreign assets other than immovable property where the aggregate value of such assets does not exceed ₹20 lakh.

Particulars	Sr. No. 1	Sr. No. 2
Nature of default	Undisclosed Foreign Asset / Undisclosed Foreign Income	(a) Asset located outside India acquired from income accruing or arising outside India, by an assessee, during the period in which such assessee was a non-resident, but such assets were not declared by him in the relevant Schedule in the return of income on becoming a resident; or (b) asset located outside India acquired from income which has been offered to tax under the ITA 1961 (43 of 1961) by the assessee, but such assets were not declared by him in the relevant Schedule in the income
Source of income	Income is undisclosed / untaxed	Income is either: • Earned outside India by non-resident, (or) • Tax-paid income in India
Seriousness of offence	Grave offence – concealment of income/assets	Procedural lapse – non-disclosure in return
Amount payable	• 30% of FMV / income • Additional 100% of tax as penalty	Flat fee of ₹1,00,000 only
Penalty element	Yes – penalty equal to tax (100%)	No tax or penalty, only a fixed fee
Threshold condition	Aggregate value of undisclosed foreign asset/income does not exceed ₹1 crore	Aggregate value of foreign assets outside India does not exceed ₹5 crore
Intent presumed by law	Wilful concealment	No intent to evade tax
Relief nature	Settlement with heavy cost	Lenient relief for small / genuine cases

The Scheme will be introduced through the Bill and will become operational from a date to be notified by the Central Government

3. Taxation of Buy-Back of shares (Section - 69)

a) Buyback of Listed Equity Shares

Sr. No.	Type of Capital Gain	Promoter is Domestic Company	Promoter is other than Domestic Company	Non-Promoter
1	Short-term Capital Gains	22% (20% + 2%*)	30% (20% + 10%*)	20%
2	Long-term Capital Gains	22% (12.5% + 9.5%*)	30% (12.5% + 17.5%*)	12.5%

b) Buyback of Shares other than Listed Equity Shares

Sr. No.	Type of Capital Gain	Promoter is Domestic Company	Promoter is other than Domestic Company	Non-Promoter
1	Short-term Capital Gains	22% (20% + 2%*)	This will depend on applicable rates	—
2	Long-term Capital Gains	22% (12.5% + 9.5%*)	30% (12.5% + 17.5%*)	12.5%

*Additional income – tax

4. MAT Reforms: Shift to Final Tax and Regime Transition (Applicable from TY 2026-27 onwards)

- MAT is proposed to be treated as a final tax, with the MAT rate reduced from **15% to 14% of book profits (9% in case of IFSC units)**.
- No accumulation of MAT credit will be allowed for any domestic or foreign company for MAT paid on or after **01-Apr-2026**.
- Domestic companies will be permitted to utilise MAT credit only upon transitioning to the new tax regime, subject to an annual cap of **25% of the total tax liability**. Domestic companies that opt for the old regime will **not be entitled to any MAT credit set-off**.
- Foreign companies will not be allowed any new MAT credit but will be permitted to utilise accumulated MAT credit as on **31 March 2026**, to the extent that **normal tax exceeds MAT** in the relevant tax year.
- Exemption from MAT to two additional specified businesses of non-residents that are taxed on a presumptive basis:
 - Business of operation of cruise ships (subject to prescribed conditions), and
 - Business of providing services or technology for setting up or supporting **electronics manufacturing facilities in India** for resident companies

5. TDS & TCS

a) TDS

(Note : TDS is covered u/s 393 in Income Tax Act, 2025)

(i) Supply of Manpower

- Supply of manpower is expressly included within “work” under Section 194C of the Income-tax Act, 2025 for the purposes of TDS on payment to contractor. This amendment removes ambiguity and ensures manpower supply is taxed in line with contractor payments.
- Threshold Limits (Section 194C):
Single payment threshold: No TDS if the payment to the contractor in a single contract does not exceed ₹30,000.
Aggregate annual threshold: No TDS if total payments to the contractor in a financial year do not exceed ₹1,00,000.
Once either limit is breached, TDS must be deducted from the first payment exceeding the threshold.

Payee Type	TDS Rate
Individual / HUF contractor	1%
Other resident contractors (firm, company, etc.)	2%
If PAN is not furnished	20% (under section 206AA)

(ii) Other Key changes

- Budget 2026 clarifies that no tax shall be deducted at source on any compensation awarded by the Motor Accident Claims Tribunal (MACT), including the interest component, thereby making the entire MACT award fully exempt from TDS in the hands of the recipient
- Budget 2026 proposes to provide that **no tax shall be deducted at source on any interest (other than interest on securities) paid or credited to a co-operative society engaged in the business of banking, including a co-operative bank and a co-operative land mortgage bank**, thereby rendering such interest payments **fully exempt from TDS** and aligning the TDS treatment of co-operative banks with that of other banking institutions.
- Under the current regime, capital gains arising to an individual from redemption of Sovereign Gold Bonds, 2015 issued by the RBI is exempt. The Finance Bill proposes to amend that capital gains arising from redemption of Sovereign Gold Bonds issued by the RBI under the Sovereign Gold Bond Scheme, 2015 or any subsequent scheme shall be exempt only where:
 - Such bonds are subscribed to by an individual at the time of original issue; and
 - Held continuously until redemption on maturity.
- Benefit extended to all schemes issued post 2015. However, withdrawal of exemption in case of redemption where the bonds were acquired through secondary acquisition or in case of pre-mature redemption of bonds.

b) TCS

Section (ITA, 1961)	Nature of Payment	Current Rate	Proposed Rate
206C(1)(i)	Sale of alcoholic liquor for human consumption	1%	2%
206C(1)(ii)	Sale of tendu leaves	5%	2%
206C(1)(vi)	Sale of scrap	1%	2%
206C(1)(vii)	Sale of minerals, being coal or lignite or iron ore	1%	2%

Sr. No.	Nature of Receipt	Current Rate	Proposed Rate
1	Liberalised Remittance Scheme (LRS):		
	For all remittances: Up to INR 10 lakhs	NIL	NIL
	For education or medical treatment: Exceeding INR 10 lakhs	5%	2%
	For all other purposes: Exceeding INR 10 lakhs	20%	20%
2	Overseas Tour Package:		
	Up to INR 10 lakhs	5%	2%
	Exceeding INR 10 lakhs	20%	2%

Note : The section number of TCS as per the Income Tax Act, 2025 is Sec 394

6. Tax Holiday

a) Tax holiday for foreign cloud service companies

- Who benefits: Foreign companies providing cloud services globally.
- Condition: They must operate from data centres located in India.
- Duration: Until 2047.
- Purpose: Attract foreign cloud businesses to set up infrastructure in India.

b) 5-year tax exemption for non-residents in toll manufacturing

- Who benefits: Non-resident companies supplying capital goods for toll manufacturing in a bonded zone.
- Duration: 5 years.
- Purpose: Encourage investment in manufacturing and bonded zones by easing tax for equipment suppliers.

7. Litigation & Compliance Reforms

- Assessment and penalty orders can be combined, simplifying dispute resolution.
- Appeal deposit requirement reduced from 20% to 10%, easing financial burden.
- Minor defaults are decriminalised, focusing on rectification rather than prosecution.
- Compliance procedures and reporting requirements are lowered, reducing taxpayer burden.
- Overall, reforms aim to streamline litigation and make the tax system more taxpayer-friendly.

8. Other Key Highlights

a) Rationalisation and Decriminalisation of Tax Penalties

- The Income-tax Act, 2025 contains provisions in Chapter XXII imposing criminal liability on assessees.
- It prescribes imprisonment (including rigorous imprisonment) ranging from 3 months to 7 years for various offences.
- Offences include:
 - ✓ Falsification of books of accounts
 - ✓ Failure to deposit TDS/TCS
 - ✓ Furnishing false statements / false returns
 - ✓ Wilful attempt to evade tax
 - ✓ Failure to file return within due date
 - ✓ Concealment or transfer of property to evade tax recovery
 - ✓ Non-compliance with directions of the Assessing Officer (AO)
- Principle of proposed decriminalisation:
 - ✓ Where the amount of tax evaded does not exceed ₹10 lakh,
 - ✓ Only monetary penalty (fine) will be imposed, and
 - ✓ No imprisonment will be prescribed..

b) Integration & Simplification of Penalty Proceedings

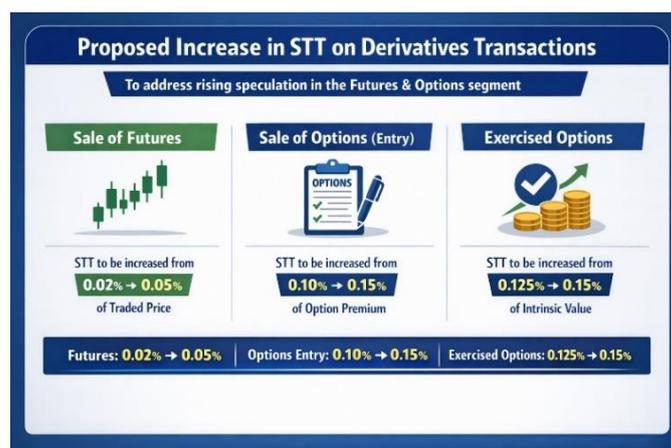
- Assessment and penalty proceedings will be integrated into a single order to speed up dispute resolution.
- Penalties for procedural defaults are being converted to fees.

c) Interest on Penalties Held During Appeal

- Interest will not accrue on penalty demands under section 270A while an appeal is pending, reducing the effective financial burden.

d) Increase in tax rates of Securities Transaction Tax ('STT')

- To address the disproportionate increase in speculative activity in the futures and options (F&O) segment, the Bill proposes to rationalise and increase the Securities Transaction Tax (STT) on derivatives transactions as under:
 - ✓ Sale of futures in securities: STT proposed to be increased from 0.02% to 0.05% of the traded price.
 - ✓ Sale of options in securities (on entering into the contract): STT proposed to be increased from 0.10% to 0.15% of the option premium.
- Sale of exercised options in securities: STT proposed to be increased from 0.125% to 0.15% of the intrinsic value.



e) Increase in Penalty Caps

- Section 466 allows authorities to collect information from business premises.
- They can direct the proprietor, employee, or any person present to furnish required information.
- If a person fails to furnish such information, penalty is applicable.
- Amendment proposed:
 - ✓ Maximum penalty increased to ₹25,000
 - ✓ Earlier maximum penalty was ₹1,000.

f) Unexplained Income Tax & Penalty Rationalisation

- In cases of unexplained credits, unexplained investments, unexplained assets, unexplained expenditure, and amounts borrowed or repaid through negotiable instruments, hundi, etc., it is proposed to amend Section 195 to reduce the tax rate from 60% to 30%. Further, it is proposed to omit the penalty under Section 443 and merge (subsume) this penalty into Section 439(11) of the Act.

g) Recent Crypto-Reporting Penalties

- A penalty of ₹200 per day will be levied for not furnishing the crypto-asset transaction statement under section 509(1) within the due date, and ₹50,000 for inaccurate information or non-compliance with corrective requirements.

h) Section 428 – Levy of Fees for defaults in furnishing return(Penalties)

- A new Section 428 is proposed to be introduced to levy fees for defaults in furnishing the return of income, audited accounts, and prescribed reports.
- This amendment will take effect from 1 April 2026.

Clause	Nature of Default	Amount of Fee
(a)	Failure to furnish the return of income within the due date specified under Section 263(1)	If total income is less than ₹5,00,000 – ₹1,000 If total income exceeds ₹5,00,000 – ₹5,000
(b)	Furnishing the return of income under Section 263(5) beyond nine months from the end of the relevant tax year	If total income is less than ₹5,00,000 – ₹1,000 If total income exceeds ₹5,00,000 – ₹5,000
(c)	Failure to get accounts audited and furnish the audit report	Delay up to one month – ₹75,000 Delay exceeding one month – ₹1,50,000
(d)	Failure to furnish the accountant's report as required under Section 172	Delay up to one month – ₹50,000 Delay exceeding one month – ₹1,00,000

i) IFSC : Strengthening Global Financial Hub

- As a significant incentive for units operating in IFSC, it is proposed to extend the tax holiday period to 20 consecutive years out of 25 years for IFSC units and 20 consecutive years for Offshore Banking Units (OBUs). Further, it is proposed that, upon expiry of the deduction period, the business income of IFSC units will be taxable at a concessional rate of 15%.

j) Penalty for failure to furnish Statement of Financial Transaction (SFT)

- Furnishing of statement: Fee of INR 200 per day, subject to a maximum of INR 1,00,000.
- Furnishing statement against notice issued: Penalty of INR 1,000 per day, subject to a maximum of INR 1,00,000.

k) Expansion in scope of immunity from penalty and prosecution

- At present, immunity under section 440 and section 270AA of the Income-tax Act is available only in cases of under-reporting of income. It is proposed to amend these provisions to extend immunity to cases where penalty proceedings are initiated for under-reporting of income arising due to misreporting, subject to payment of additional income-tax in lieu of penalty, as follows:
 - Section 440:
Immunity may be granted on payment of additional income-tax equal to 120% of the tax payable on such income, in lieu of penalty. This amendment will take effect from 1 April 2026 and will apply from Tax Year 2026-27 onwards.
 - Section 270AA:
Immunity may be granted on payment of additional income-tax equal to 100% of the tax payable on such income, in lieu of penalty. This amendment will take effect from 1 March 2026 and will apply for Assessment Year 2026-27 and earlier assessment years..

l) Rationalization of Due Date for Employee Contributions to ESI and Related Funds

- Section 29(1)(e)(i) of the Act permits a deduction for employee contributions received by an employer to which section 2(49)(o) applies, provided the amount is credited to the employee's account in the relevant fund within the prescribed due date.
- Previously, the due date referred to the date specified under the applicable laws, rules, orders, notifications, standing orders, awards, or contracts of service.
- The due date has now been revised to align with the due date for filing the return under section 263(1) of the Act. This amendment takes effect from 1 April 2026, i.e., from Tax Year 2026-27.

m) Non-allowability of Interest as a deduction against Dividend Income

- Section 93(2) is proposed to be amended to disallow any deduction for interest expenditure incurred for earning dividend income or income from units of mutual funds.
- Currently, section 93 permits deduction of such interest expenditure, subject to a cap of 20% of the gross dividend or income from units of mutual funds. The proposed amendment removes this deduction entirely.
- This amendment will take effect from 1 April 2026 and will apply from Tax Year 2025-26 onwards.

n) Allowing Filing of Updated Return After Issuance of Reassessment Notice

- Earlier, section 263(6)(c)(v) prohibited the filing of an updated return in cases where any assessment, reassessment, recomputation, or revision proceedings were pending or had been completed for the relevant tax year. Accordingly, once reassessment proceedings were initiated, filing an updated return was not permitted.
- It is now proposed to allow filing of an updated return even where reassessment proceedings have been initiated and a notice of reassessment has been issued under section 280 of the Act, with the objective of reducing litigation.
- Section 267 has been amended to provide that where a taxpayer files an updated return in response to a notice issued under section 280 within the time specified in the notice, an additional amount equal to 10% of the total tax and interest payable on such updated return shall be payable.
- The amendment further clarifies that once this additional tax is paid, the income so offered in the updated return shall not be considered for levy of penalty under section 439.

Period of filing of updated return	Additional tax and interest payable
Within 0-12 months	25% + 10%
12-24 months	50% + 10%
24-36 months	60% + 10%
36-48 months	70% + 10%

Note: The additional 10% is payable where the updated return is filed in response to a notice under section 280 within the specified time.

- Section 263(6)(c)(i) currently restricts the filing of an updated return where the updated return is a return of loss for the relevant tax year.
- It is proposed to amend section 263(6) of the Act to allow filing of an updated return in cases where the taxpayer reduces the amount of loss as compared to the loss claimed in the original return of loss filed within the due date specified under sub-section (1).
- A similar amendment has been made in the Income-tax Act, 1961.
- The amendment to the Income-tax Act, 2025 shall come into force from 1 April 2026.
- The corresponding amendment to the Income-tax Act, 1961 shall take effect from 1 March 2026.

o) Changes in procedure of issuance of Lower/No Deduction Certificate

- Section 395 of the Act provides for the issuance of a certificate for deduction of tax at source (TDS) at nil or lower rates. Under the existing provisions, the taxpayer is required to apply to the Assessing Officer, who issues the certificate after due verification.
- It is now proposed to allow small taxpayers to submit such applications electronically. The certificate may be issued electronically, subject to fulfilment of conditions as may be prescribed by the CBDT.
- This amendment will take effect from 1 April 2026.

p) Filing of Declaration for No Deduction to a Depository

- Section 393(6) of the Act presently requires the assessee to submit a written declaration for non-deduction of tax at source to the person responsible for paying certain incomes, such as dividends, interest on securities, and income from units of mutual funds.
- To simplify compliance, it is now proposed that such declaration shall be furnished to the depository, which will, in turn, forward the declaration to the person responsible for making the payment of such income.
- Further, the time limit for furnishing these declarations to the Income-tax Authorities by the person responsible for paying such income has been revised from a monthly basis to a quarterly basis.
- This relaxation is available only in respect of investors who hold the securities or units in a depository and where such securities are listed on a recognized stock exchange in India.
- This amendment will take effect from 1 April 2027.

q) Relaxation from obtaining TAN by an Individual/HUF, where the seller of immovable property is Non-resident

- Earlier, section 397(1)(a) of the Act required an Individual or HUF to obtain a Tax Deduction and Collection Account Number (TAN) where the seller of immovable property was a non-resident.
- This requirement has now been removed. Accordingly, Individuals and HUFs are no longer required to obtain a TAN in such cases, with effect from 1 October 2026.

r) Rationalising due dates for filing of return of Income.

- Assessee includes **partners of a firm**.
- **Spouse of the partner** is also covered if Section 10 applies.
- **New concept:** If the spouse receives **any income from the firm**, the spouse must file a return.
- The **due date for the spouse = due date of the firm**.

s) Jurisdiction to issue notice u/s 148 & procedure u/s 148A (Faceless setup)

The Income-tax Act provides a two-step process for reassessment: first, a pre-assessment enquiry under section 148A by the Assessing Officer, followed by issuance of notice under section 148; second, reassessment is conducted in a faceless manner by NaFAC under section 144B. Divergent High Court views arose on whether NaFAC could issue notices under sections 148/148A. The amendment clarifies that only the jurisdictional Assessing Officer (and not NaFAC or its assessment units) has the power to conduct pre-assessment enquiry and issue notice under sections 148 and 148A. NaFAC's role is limited to carrying out reassessment after such notice is issued. This clarification overrides contrary court rulings. It is retrospective from 1 April 2021 under the 1961 Act and aligned prospectively in the Income-tax Act, 2025 from 1 April 2026.

t) Assessments not invalid due to mistake in DIN (Document Identification Number)

- Every notice/order issued electronically gets a computer-generated DIN.
- Sometimes, due to technical or clerical errors, there may be a mistake, defect, or omission related to DIN.
- Clarification provided:
 - The assessment will not be treated as invalid just because of such mistake/defect/omission,
 - As long as the assessment is referenced by a computer-generated DIN in any manner.
- Purpose:
 - To prevent assessments from being quashed on minor technical grounds when a valid DIN exists.

9. Transfer Pricing

a) Safe Harbour Reforms for IT service sector

- Hon'ble FM announced reforms in the Safe Harbour regime, merging software development, IT enabled, KPO, and contract R&D services into a single "IT services" category with a uniform margin of 15.5%.

Services	Existing Safe Harbour rate	Proposed Safe Harbour rate
Software development services and IT enabled services	<ul style="list-style-type: none"> transaction value up to INR 100 crore – 17% transaction value from INR 100 to INR 300 crore – 18% 	<ul style="list-style-type: none"> All under single category of IT services – transaction value up to ₹2,000 crore – 15.5%
Knowledge process outsourcing	transaction value up to INR 300 crore: <ul style="list-style-type: none"> 24% if employee cost exceeds 60% of operating expense 21% if employee cost is from 40% to 60% of operating expense 18% if employee cost up to 40% of operating expense 	(covered under the single IT services category – 15.5%)
Contract R&D services for software development	<ul style="list-style-type: none"> transaction value up to 300 crore – 24% 	(covered under the single IT services category – 15.5%)

- IT services Safe Harbour approvals will now use an automated rule-based mechanism (no tax officer involvement) and be available for 5 years at taxpayer's option.
- New Safe Harbour proposed for data centre services providers with a 15% margin.



10. Due dates

Description	Other than Individual and HUF	Individual and HUF
Person covered under tax audit (to whom transfer pricing is not applicable)	31 October	
Person to whom transfer pricing is applicable	30 November	
Trusts, person (other than Company) having income from business and profession and not covered under tax audit	31 August	
Other persons (other than Company)	31 July	
Belated Return	31 December	
Revised Return	31 March	
Updated Return **	Within 48 months from the end of the relevant AY	

** An updated return may now be filed even in cases where there is a reduction in the loss that was previously declared in the original return, allowing taxpayers to revise and correct their reported losses in line with updated information or assessments.

Part B- Indirect Tax proposals

INDIRECT TAX

1. GST

a) Key Highlights

- For reducing post-supply discounts, supplier needs to issue a credit note U/s 34 from the value of supply
- The benefit of 90% provisional refund has now been extended to include accumulated ITC arising due to inverted duty structure
- The place of supply for intermediary services has been shifted from location of supplier to location of recipient
- Central Government may notify any existing authority including a Tribunal, to hear appeals until the National Appellate Authority for Advance Ruling is formed
- It is clarified that minimum threshold limit of Rs. 1000 for claiming refund is not applicable for export of goods or services made with payment of tax

b) Exclusion of discount given from Value of Supply

Section	Details
Background	Section 15(3) of the CGST Act allows certain discounts to be excluded from the value of supply if specified conditions are met.
Current Scenario	Discounts after supply could be excluded only if all the following applied: <ul style="list-style-type: none"> • It was agreed at or before the time of supply • It was specifically linked to invoices • Recipient reversed the attributable ITC
Change in Law	Going forward, discounts will be excluded from the value of supply if: <ul style="list-style-type: none"> • A credit note is issued under Section 34 by the supplier • The recipient reverses the attributable ITC • No contract/agreement or specific invoice linkage requirement
Effective From	Date to be notified by the Central Government
Impact	Value of supply can be reduced for discount exclusion by issuance of credit notes under Section 34 and corresponding reversal of ITC by the recipient.



c) Amendment in issuance of Credit Notes

Section	Details
Background	Section 34 of the CGST Act deals with situations in which credit notes can be issued, adjustment of tax liability, and the time limit for issuing credit notes.
Current Scenario	Under Section 34(1), credit notes can currently be issued in the following cases: <ul style="list-style-type: none"> • Excess tax has been charged on a taxable supply • Goods are returned by the recipient • Goods or services supplied are of deficient quality
Change in Law	An amendment has been introduced to include an additional criterion for issuing credit notes: <ul style="list-style-type: none"> • Where a discount has been granted by the supplier, in addition to the existing situations mentioned above
Effective From (WEF)	Date to be notified by the Central Government
Impact	As a result of this change, taxpayers supplying goods or services can reduce their output tax liability for supplies already made when a discount is given to the recipient.

d) Provisional Refund in case of Inverted duty structure

- Section 54(6) of the CGST Act allows a provisional refund of 90 % of the total amount claimed in cases of zero-rated supplies, subject to prescribed conditions.
- Under the current law, provisional refunds were limited only to refunds arising from zero-rated supplies of goods or services and did not cover unutilised input tax credit under Section 54(3) first proviso clause (ii), commonly known as the inverted duty structure.
- The law has now been amended to expand the scope of Section 54(6) to also provide for a 90 % provisional refund of unutilised input tax credit arising due to an inverted duty structure under Section 54(3) first proviso clause (ii).
- The amendment will take effect from a date to be notified by the Central Government.
- As a result of this change, eligible taxpayers claiming a refund of accumulated ITC due to an inverted duty structure will also be entitled to receive 90 % provisional refund, thereby improving liquidity for the taxpayer.

e) Amendment in Place of Supply for Intermediary services

- Section 13 of the IGST Act, 2017 specifies how to determine the place of supply when either the supplier or the recipient is located outside India.
- Under the current provisions, the place of supply for intermediary services under Section 13(8)(b) of the IGST Act is the location of the supplier.

- With the recent amendment, the specific provision in Section 13(8)(b) relating to the place of supply for intermediary services has been removed. As a result, the place of supply for such services will now be determined under Section 13(2) of the IGST Act, which means that it is the location of the recipient.
- The amendment will come into effect from a date to be notified by the Central Government.
- Due to this change, the place of supply for intermediary services has shifted to the recipient's location. This allows Indian intermediary service providers to treat supplies made to persons outside India as zero-rated supplies, enhancing their global competitiveness. Additionally, when Indian recipients import services from foreign intermediaries, GST may be applicable under the reverse charge mechanism (RCM).

f) National Appellate Authority for Advanced Ruling

- Conflicting rulings have arisen between different Appellate Authorities for Advance Ruling (AAAR).
- To address such conflicts, the Finance Act (No. 2) of 2019 provided for the constitution of a National Appellate Authority for Advance Rulings (NAAAR) under Section 101A.
- However, the provisions relating to NAAAR have not yet been implemented.
- Based on the recommendations of the GST Council, the Government has decided to empower any existing authority constituted under any law in force to discharge these functions until NAAAR is formally constituted.
- Such existing authority may include a Tribunal.
- The other sub-sections of Section 101A shall not apply in the interim arrangement.

2. Customs

a) Fishing Expedition

- Paragraph 174 of the Budget Speech states that fish caught by Indian fishing vessels in the Exclusive Economic Zone (EEZ) or on the High Seas will be exempt from customs duty. Accordingly, Section 1(2) of the Customs Act has been amended to extend its applicability to fishing and fishing-related activities carried out by Indian-flagged vessels beyond India's territorial waters. Further, as per Section 2(28A), an "Indian-flagged fishing vessel" refers to a vessel used or intended for fishing in the seas and entitled to fly the Indian flag.

b) Advance Ruling

- As per Section 28J(2), the validity of an advance ruling has been extended from three years to five years. A proviso has been introduced to empower the Authority for Advance Rulings (AAR) to extend the validity of existing rulings from three years to five years, upon a specific request from the applicant. This amendment supports ease of doing business and provides greater stability and certainty in matters relating to customs classification.

c) Warehouse

- As per Section 67, the owner of warehoused goods may remove such goods from one warehouse to another, subject to the prescribed conditions. Earlier, this provision required permission from the proper officer and was linked to confirmation of due arrival of goods. The procedure has now been simplified and replaced with a self-declaration and intimation-based mechanism.

d) Deferred Payment of Duty

- Section 47 empowers the Central Government to allow specified classes of importers to pay customs duty on a deferred basis.
- Notification No. 12/2026 dated 01.02.2026 expands this facility to include “Eligible Manufacturer Importers” under Section 47 of the Customs Act, 1962.
- “Eligible Manufacturer Importer” refers to manufacturers notified as a separate class of importers and approved by the Directorate of International Customs.
- Such eligible manufacturers are permitted to make deferred payment of import duty up to 31st March, 2028.
- Notification No.13/2026-NT dated 01.02.2026 seeks to amend the Deferred Payment of Import Duty Regulations, 2016 to extend duty deferral facilities for trusted entities from 15 to 30 days
- The amendments are effective from 01.03.2026

e) Baggage Rules, 2026

New Baggage Rules, 2026 (w.e.f. 02.02.2026)

- The New Baggage Rules, 2026 come into force from 02.02.2026.
- “Personal effects” include all articles (new or used) reasonably required by a passenger for personal use during the journey, excluding goods meant for commercial purposes.
- Under the earlier definition, jewellery was excluded from personal effects.
- The Madras High Court decision in *Thanushika* clarified the position in the context of “Thali” (mangalsutra).

Rule 3 – Duty-Free Import of Personal Effects

- Passengers, including infants, are allowed duty-free clearance of used personal effects required for daily necessities of life and travel souvenirs carried on the person or in bona fide baggage.
- Articles listed in Annexure-I are excluded from duty-free allowance.

Annexure-I (Excluded Articles)

- Firearms
- Cartridges exceeding 50
- Cigarettes exceeding 100 sticks, or cigars exceeding 25, or tobacco exceeding 125 grams
- Alcoholic liquor or wine exceeding two litres

- Gold or silver in any form other than ornaments
- Television

Rule 4 – Re-import and Temporary Import of Personal Effects

- Personal effects (other than used daily-necessity items) taken out earlier may be re-imported duty-free by residents, tourists of Indian origin, or foreigners holding valid visas (other than tourist visas), subject to declaration at the time of departure and satisfaction of the Deputy/Assistant Commissioner of Customs.
- Personal effects required for daily necessities of life carried by tourists for their stay in India may be temporarily imported duty-free, subject to declaration and re-export at the time of departure from India.
- Passengers availing this facility may be subjected to risk-based verification.

General Free Allowance (GFA)

- Applies to articles carried on the person or in bona fide accompanied baggage.
- Passengers aged 18 years and above (excluding crew) are permitted to bring one new laptop/notebook duty-free in bona fide baggage.
- GFA cannot be pooled with the free allowance of any other passenger.

Special Allowance for Jewellery

- “Jewellery” includes articles of adornment ordinarily worn, made of gold, silver, platinum, or other precious metals, whether studded or not.
- Residents or tourists of Indian origin residing abroad for more than one year are eligible for duty-free allowance for jewellery in bona fide baggage.
- Permissible limits:
 - Up to 40 grams for female passengers
 - Up to 20 grams for passengers other than female

Transfer of Residence

- Residents or tourists of Indian origin transferring their residence to India after professional engagement abroad are eligible for additional duty-free clearance, over and above Rule 3 and Rule 5, for items specified in Appendix I, subject to conditions.
- Personal and household articles specified in Annexure-II may be imported on transfer of residence up to the value limits prescribed in Appendix I and II.

New Customs Baggage (Declaration and Processing) Regulations, 2026

- Electronic declaration in Form CBD-1 is required for dutiable or prohibited articles.
- Green Channel: walk-through for passengers with no dutiable/prohibited goods.
- Red Channel: applicable for items declared in Serial Nos. 16 to 18 of Form CBD-1, such as pets, prohibited articles, gold bullion, drones, or currency exceeding prescribed limits.

Pets and Other Provisions

- Import of pets is regulated by rules notified by the relevant Ministry/Department or authority of the Central Government.
- Baggage Rules also apply to unaccompanied baggage.
- Rules apply to crew members of foreign-going conveyances at the time of final pay-off on termination of engagement.
- Crew members may bring chocolates, cheese, and gift articles for family use, subject to a value limit of ₹2,500.

Category of Traveller	Mode of Arrival	General Free Allowance (Duty-Free)
Resident (not an infant)	Arriving in India <i>other than by land</i>	Duty-free articles (other than Annexure I) up to ₹75,000
Tourist of Indian Origin (not an infant)	Arriving in India <i>other than by land</i>	Duty-free articles (other than Annexure I) up to ₹75,000
Foreigner with a valid visa (other than tourist visa, not an infant)	Arriving in India <i>other than by land</i>	Duty-free articles (other than Annexure I) up to ₹75,000
Tourist of foreign origin (not an infant)	Arriving in India <i>other than by land</i>	Duty-free articles (other than Annexure I) up to ₹25,000
Passenger (general)	Arriving in India <i>by land</i>	Only used personal effects required for daily necessities of life are allowed duty-free (no general monetary allowance)

f) Miscellaneous

- Section 84 has been amended to empower the Board to make rules regarding the custody of goods that are imported or intended for export under the regulations framed under this section.
- Circular No. 6/2026 dated 01.02.2026 has been issued for the implementation of automated goods registration and automated “out-of-charge” for imports.
- The process will be system-driven and automated, eliminating the need for manual handling.
- It will be available to AEO T2 and T3 entities, approved eligible manufacturer importers, importers with a long-standing supply chain, and importers using the Direct Port Delivery facility.
- There will be no manual intervention in the registration and clearance process.

3. Customs Tariff

- Notification No. 2/2026 has amended Notification No. 45/2025.
- A total of 201 entries in the notification have been either amended or substituted.
- With effect from 02.02.2026, customs duty has been exempted on a range of items, including (but not limited to):
 - Monazite.

- Specified capital goods used in the manufacture of lithium-ion cells for battery energy storage systems.
- All goods falling under tariff heading 8401 30 00 that are used in the generation of nuclear power.
- Goods required for the establishment of nuclear power plants.
- Goods used in the manufacture of microwave ovens.
- Components or parts, including engines, for the manufacture of aircraft and aircraft parts.
- Raw materials for the manufacture of aircraft parts for maintenance, when imported by PSUs under the Ministry of Defence.
- Seventeen newly specified drugs.
- An expanded list of rare diseases for which medicines are now eligible for exemption.
- Customs duty rates have been increased for certain items.
 - ✓ The duty on potassium hydroxide has been raised from nil to 7.5%.
 - ✓ Umbrellas (other than garden umbrellas) will now attract duty at 20% or ₹60 per piece, whichever is applicable.
 - ✓ Parts, trimmings, and accessories of umbrellas and walking sticks will also see an increase in duty.
- Several exemption notifications are set to lapse from 02.02.2026 or 01.04.2026, including (but not limited to):
 - ✓ Animals and birds imported for zoos.
 - ✓ Coffee roasting, brewing, or vending machines used in the manufacture or processing of coffee.
 - ✓ Naphtha used in the production of fertilisers.
 - ✓ Television equipment, cameras, and similar gear imported by foreign film units or television crews.
- The value limit for duty-free import of specified goods used in seafood processing has been increased from 1% to 3% of the FOB value of exports.
- The time limit for export of textile and leather garments, leather or synthetic footwear, and other leather products has been extended from six months to twelve months.
- The duty exemption on inputs used for the manufacture of leather and synthetic footwear for export has been extended to also cover shoe uppers.

4. Excise Duty

- The value of biogas and compressed biogas (CBG), along with the applicable GST paid on these components contained in blended CNG, has been excluded from the transaction value for the purpose of levy of Central Excise duty on blended CNG.
- The tariff rate for National Calamity Contingent Duty (NCCD) has been revised with effect from 01.05.2026; however, the effective rate has been retained at 25% on specified items such as chewing tobacco, jarda, and similar products.

DISCLAIMER

This presentation intends to provide only an overall insight of the subjects covered herein. It should neither be regarded as comprehensive nor sufficient for making any decisions, nor should it be used in place of a Disclaimer Information professional advice. V.K. Dinesh & Senthilraja Chartered Accountants does not accept any responsibility for defeat /loss, if any arising from any action taken or not taken by anyone using this presentation.

Wishing you all the success...

Thanking You.

TEAM VKDS / team@vkds.in

13-02-2026