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UNION BUDGET HIGHLIGHTS 2026

FAVOURABLE POINTS

1) Extending the period of filing revised return

- **Section 263 of Income Tax Act, 2025 (IT Act 2025)** deals with who must file income-tax returns, by when, and the types of returns: original, belated, revised, and updated.
- **Revised Return (Section 263(5))**:
- A taxpayer can correct mistakes or omissions in their original or belated return.
- Currently, a revised return must be filed **within 9 months from the end of the tax year** or before assessment is completed, whichever is earlier.
- The time limit for filing a revised return is proposed to be **extended from 9 months to 12 months** from the end of the tax year.
- This gives taxpayers more time, especially if they file a belated return late in the year.
- A fee will be charged under **section 428(b)** if the revised return is filed after 9 months.
- Changes will apply from **1st April 2026** for tax year 2026-27 onwards.

2) Taxation of buyback of shares

I. What is this amendment about?

This amendment **changes how share buy-backs are taxed** for shareholders under the **Income-tax Act, 2025**.

II. How were buy-backs taxed earlier?

- Money received on buy-back was treated as **dividend income**.
- Tax was paid under dividend rules.
- **Cost of shares** bought back was claimed separately as a **capital loss**.

This split treatment was considered **complex and inconsistent**.

III. What does the amendment change?

- Buy-back consideration will now be taxed **only as Capital Gains**.
- No separate dividend treatment.
- Cost of acquisition will be **adjusted normally** while computing capital gains.
- Special rule for promoters
- **Individual promoters**:

Effective tax rate capped at **30%** (normal capital gains tax + additional tax).

- **Promoter companies**:
- Effective tax rate capped at **22%**.

This is to prevent promoters from using buy-backs as a tax-planning tool.

Additional Tax Rates:

Sr. No.	Income	Rate, where the promoter is a domestic company	Rate, where the promoter is other than a domestic company
	STCG – Sale of Equity Shares	2%	10%
	LTCG – Equity Shares, units of Equity oriented funds, etc.	9.5%	17.5%

IV. Why is this amendment being made?

- To **simplify buy-back taxation**.
- To remove artificial separation of income and loss.
- To **prevent tax arbitrage by promoters**.
- To align buy-back taxation with **economic reality**.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

3) Scope of filing of updated return in the case of reduction of losses – reg.

Earlier, you could file an **updated return** to fix mistakes, but only in limited cases.

One big restriction was this: **you could not use an updated return if it still showed a loss**.

Now, the rule is being relaxed.

What is changing?

- If you originally filed a return showing a **loss**, and
- Later you realise that the **loss was shown too high**, you will now be allowed to file an **updated return** to **reduce that loss**.
- Earlier, this was not allowed.
- Even if you wanted to correct your mistake honestly, the law stopped you.

What this does NOT allow:

- You still cannot use an updated return to **create a new loss**.
- You still cannot use it to **pay less tax or get a higher refund**.

Simple example:

- You filed your return on time and showed a loss of **Rs. 10 lakh**.
- Later, you find out the correct loss is only **Rs. 6 lakh**.
- Earlier: You were **not allowed** to correct this.
- Now: You **can file an updated return** and reduce the loss to Rs. 6 lakh.

When will this apply?

- For the new Income-tax Act, 2025: from **1 April 2026**.
- The same change will also be made in the old Income-tax Act, 1961, from **1 March 2026**.
- **In short:**
  The law now allows you to **correct an overstated loss**, even if the return still shows a loss. This makes the system fairer for genuine mistakes.

4) Allowing the filing of updated return after issuance of notice of reassessment.

Earlier, once the tax department started **re-checking your case** and sent you a notice, you were **not allowed** to file an **updated return**. You had to fight the case through replies, hearings, and appeals.

Now, the law is changing.

What is being allowed now?

- Even **after you receive a reassessment notice**, you can choose to file an **updated return**.
- You must file it **within the time mentioned in the notice**.
- If you file this updated return, you **cannot file any other return** in response to that notice.

What is the cost?

- You already pay extra tax for filing an updated return.
- Now, if you file it **after a reassessment notice**, you must pay **10% more extra tax** on top of the existing additional tax.
- The later you file (1st year, 2nd year, etc.), the higher the extra tax still applies.

What is the benefit?

- If you pay this extra tax and disclose the income:
- That income **cannot be used to levy penalty**.
- This helps avoid long disputes and litigation.

Simple example:

Tax department sends you a reassessment notice. You realise some income was missed. Instead of fighting for years: You file an updated return.

- You pay tax + interest + extra tax + 10% more.
- The matter ends. No penalty on that income.

When will this apply?

- Under the new law: from 1 April 2026 (Tax Year 2026-27 onwards).
- Similar change under the old law also applies from **1 March 2026**

There are always Two sides of the coin :

This amendment is beneficial for the assessee as it allows filing of an updated return even after receipt of a reassessment notice under **section 280 of the Income-tax Act, 2025** (section **148 of the Income-tax Act, 1961**), helping avoid prolonged litigation and protecting the disclosed income from penalty under **section 439**, on payment of additional tax under **section 267**.

The unfavorable part is discussed in point number 2 of the unfavorable in union budget 2026.

5) No tax to de deducted at source in respect of interest income credited or paid to any cooperative society engaged in carrying on the business of banking (including a cooperative land mortgage bank

I. What is this amendment about?

This amendment **removes TDS (tax deduction at source)** on **interest income** paid to **co-operative banks**, aligning the new law with the old Income-tax Act, 1961.

II. What was the issue earlier?

- The new law did **not clearly exempt** interest paid to **co-operative societies engaged in banking** from TDS.

- Under the old law, such interest (other than interest on securities) was **not subject to TDS**.
- This created **unintended TDS compliance** for payers and cash-flow issues for co-operative banks.

III. What does the amendment do?

- Clarifies that **no TDS is required** on:
  - **Interest income (other than interest on securities)**
  - Paid or credited to **any co-operative society carrying on banking business**, including **co-operative land mortgage banks**.
- Brings the provision **back in line with the 1961 Act**.

Comparison Table – TDS on Interest to Co-operative Banks

Particulars	**Earlier (IT Act 2025 – before amendment)**	**Proposed (after amendment)**
Interest paid to co-operative bank	Ambiguous / potentially subject to TDS	**No TDS**
Type of interest covered	Not clearly carved out	**All interest except interest on securities**
Compliance burden on payer	Higher	**Removed**
Cash-flow impact on co-op bank	Adverse	**Improved**

The amendment will take effect from the **1st day of April, 2026**.

Applies to Interest credited or paid on or after this date.

6) Rationalisation of TCS rates

Sr. No	Nature of receipt	Current rate	Proposed rate
1.	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding ten lakh rupees—	(*a*) 5% for purposes of education or medical treatment; (*b*) 20% for others	(*a*) 2% for purposes of education or medical treatment; (*b*) 20% for others
2.	Sale of "overseas tour programme package" including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure.	*(a)* 5% of amount or aggregate of amounts up to ten lakh rupees; (*b*) 20% of amount or aggregate of amounts exceeding ten lakh rupees.	2%

The amendment will take effect from the 1st day of April, 2026.

7) Correction in provisions relating to Income from House Property and Permanent Account Number.

I. What is this amendment about?

This amendment **corrects and aligns provisions** in the **Income-tax Act, 2025** relating to:

i. **Income from house property**, and
ii. **Quoting of PAN in documents**.

Key changes

I. Unsold flats held as stock-in-trade

- Builders holding unsold flats will have **annual value treated as NIL**:
- **p to 2 years** from the end of the financial year in which **completion certificate** is obtained.
- This aligns with the old law and avoids tax on notional rent for a limited period.

II. Home loan interest deduction (self-occupied property)

- Maximum deduction remains **₹2 lakh**.
- Clarification added that:
- **Prior-period (pre-construction) interest** is **included within the ₹2 lakh cap**.
- Prevents confusion on whether such interest is extra or included.

III. PAN quoting in non-business transactions

- CBDT will be **expressly empowered** to:
- Prescribe PAN quoting for **transactions not related to business or profession**.
- Enables PAN requirement in more transactions, if notified.

These amendments will take effect from **1st April, 2026**.

8) Deductions in respect of dividends received and distributed by certain cooperative societies

- At present, a **co-operative society gets deduction on interest or dividend received from another co-operative society only under the old tax regime**.
- Dividends received by a co-operative society from **companies are fully taxable**.

  It is now proposed that:
- Under the **new tax regime**, co-operative societies will also get **deduction on dividends received from other co-operative societies**, but **only to the extent such dividends are passed on to their members**.
- **Notified federal co-operative societies** will be allowed deduction on **dividends received from companies** for a **limited period of three years (up to Tax Year 2028-29)**.
- This benefit is available **only for investments made up to 31 January 2026** and only if the dividend is **distributed to members**.
- The amendment will apply from **1 April 2026**, i.e. **Tax Year 2026–27 onwards**.

9) Inclusion of Cooperatives registered under Multi-State Cooperative Societies Act, 2002 in the definition of co-operative society.

Currently, a **co-operative society** is defined as one registered under the Cooperative **Societies Act, 1912**, or any similar state law. The proposed change will **also include co-operative societies registered under the Multi-State Cooperative Societies Act, 2002**.
This change will come into effect from **1st April 2026**, and apply from the **tax year 2026-27 onwards**.

10) Exemption on interest income under the Motor Vehicles Act, 1988.

This act applies to the Motor vehicles act 1988 provides for compensation and interest to an individual or his legal heir, on account of death or on account of permanent disability or any bodily injury under the said Act.
It is proposed to amend the said Schedule to provide exemption to an individual or his legal heir, on any income in the nature of interest under the Motor Vehicles Act, 1988.

These amendments will take effect from the 1st day of April, 2026 and shall accordingly, apply in relation to the tax year 2026-27 and subsequent tax years.

Earlier, TDS is not required to be deducted in respect of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal, if the amount or the aggregate of the amounts of such income does not exceed ₹ 50,000 during the tax year.

As per the amendment in order to provide relief to individual and the hardship caused due to accident it is proposed that no TDS shall be deducted in respect of interest on the compensation amount.

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

Section 395 of the Act deals with the enabling electronic verification and issue of certificates for deduction or collection of tax at source at a lower rate or at nil rate. At present, a person who wants tax to be deducted at a lower rate or not deducted at all the payee has to make an application before the Assessing officer. After checking the details, the Assessing officer may issue such a certificate if satisfied that the person's total income of the recipient justifies lower or no tax deduction.

To reduce the compliance burden, especially for small taxpayers, it is proposed to allow the application for such certificates to be filed online before a prescribed income-tax authority. The authority may issue the certificate electronically if the prescribed conditions are met, or reject the application if the conditions are not fulfilled or the application is incomplete.

This amendment will come into effect from 1 April 2026.

12) Relaxation from requirement to obtain tax deduction and collection account number (TAN) by a resident individual or HUF, where the seller of the immovable property is a non -resident.

Section 397 of the Act requires a person who deducts or collects tax to obtain a Tax Deduction and Collection Account Number (TAN). However, certain cases are exempt from this requirement. At present, when a person buys immovable property from a resident seller, the buyer is not required to obtain a TAN for deducting tax. But if the seller is a non-resident, the buyer must obtain a TAN, this creates an unnecessary compliance burden.

To reduce this burden on resident individuals and Hindu Undivided Families (HUFs), it is proposed to amend section 397(1)(c) to provide that a resident individual or HUF will not be required to obtain a TAN for deducting tax on payment made for transfer of immovable property under section 393(2).

This amendment will come into effect from **1 October 2026.**

13) Enabling filing of declaration for no deduction to a depository

Section 393(6) of the Act provides that no TDS is to be deducted at source in certain cases, such as on dividend, interest on securities and income from mutual fund units, if the assessee submits a written declaration for non-deduction of tax to the person paying such income.

Investors who earn income from multiple securities or mutual fund units have to submit several declarations, which increases compliance burden. To reduce this difficulty, it is proposed to allow investors to submit a single declaration to the **depository,** which will then share the declaration with the persons responsible for paying such income.

Further, to simplify compliance for the persons paying such income, the time limit for submitting these declarations to the prescribed income-tax authority is proposed to be changed from a **monthly** basis to a **quarterly** basis.However, only those investors who have held the securities or units in the depository and where the securities are listed in registered stock exchange in India are proposed to furnish the declaration to the depository.

This amendment will come into effect from **1 April 2027.**

Comparative impact

Stakeholders	**Impact**
Investor	Favorable – single declaration instead of multiple forms
Payers	Favorable – reduced frequency of reporting (quarterly instead of monthly)
Depository	Unfavorable – increased compliance and operational workload

14) Referencing the time limit to complete block assessment to the initiation of search or Requisition.

- Under the current law, a block assessment must be completed **within 12 months** from the end of the quarter in which the **last search authorisation** was executed.
- In group search cases, this creates confusion because **different persons get different time limits**, even though the search is part of one coordinated action.
- To remove this issue, it is proposed that the **date of initiation of search** (not the last authorisation) will be taken as the starting point for calculating the time limit.
- At the same time, the time limit for completing block assessment is **extended from 12 months to 18 months**.
- This change will apply to **searches or requisitions initiated on or after 1 April 2026**.

15) Relaxation of conditions for prosecution under the Black Money Act.

Under the **Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015**, **sections 49 and 50** currently provide for strict criminal prosecution, including imprisonment and fine, for wilful non-disclosure of foreign income or foreign assets by resident taxpayers. In practice, these provisions were found to apply even in cases of small and unintentional non-disclosures, leading to disproportionate hardship.

To address this issue, it is proposed to amend **sections 49 and 50** to provide that prosecution shall **not be initiated** in respect of **foreign assets other than immovable property**, where the **aggregate value does not exceed Rs. 20 lakh**. The objective is to ensure that minor, low-value foreign asset non-disclosures are not subjected to severe criminal consequences, while serious violations continue to be dealt with strictly. The amendment is proposed to take effect **retrospectively from 1 October 2024**, thereby extending relief to pending and past cases as well.

This amendment is **favorable for the assessee**, as it significantly reduces exposure to criminal prosecution for minor foreign asset non-disclosures and brings proportionality to enforcement under the **Black Money Act, 2015**, without diluting action against high-value or deliberate violations.

16) Rationalization of prosecution proceedings

The **Income-tax Act, 2025** presently contains extensive prosecution provisions under **Chapter XXII**, where offences by the assessee can lead to criminal liability, including **rigorous imprisonment ranging from three months to seven years**, along with fines. These provisions, contained mainly in **sections 473 to 485 and section 494**, cover a wide range of defaults such as search-related violations, non-payment of TDS/TCS, wilful tax evasion, failure to file returns, furnishing false statements, falsification of books, and obstruction of tax recovery. Over

time, it was felt that the severity of punishment in many cases was **disproportionate**, especially where the offence involved smaller amounts or procedural lapses.

To address this, a comprehensive **decriminalisation and rationalisation exercise** has been proposed. The amendments aim to make punishment **proportionate to the gravity of the offence**, while retaining criminal consequences for serious and high-value violations. The key principles followed include replacing **rigorous imprisonment with simple imprisonment**, reducing the **maximum term of imprisonment from seven years to two years** (and three years for subsequent offences), introducing **graded punishment based on the amount of tax involved**, prescribing **only monetary fines where the tax evaded does not exceed Rs. 10 lakh**, allowing **fine in place of or in addition to imprisonment**, and **fully decriminalising certain minor offences**.

Section	**Nature of Offence**	**Position before Budget 2026**	**Position after Budget 2026**
473	Contravention of order during search	Rigorous imprisonment up to **2 years** and fine	**Simple imprisonment up to 2 years** and fine
474	Failure to provide facility for inspection during search	Rigorous imprisonment up to **2 years** and fine	**Simple imprisonment up to 6 months** and/or fine
475	Removal / concealment / transfer of property to evade recovery	Rigorous imprisonment up to **2 years** and fine	**Simple imprisonment up to 2 years** and fine
476	Failure to deposit TDS (lottery, crossword, perquisite, etc.)	Rigorous imprisonment **3 months to 7 years** and fine	**Fully decriminalised** for specified TDS categories
476	Failure to deposit TDS (online games / VDA – other than wholly in kind)	Rigorous imprisonment **3 months to 7 years** and fine	• Tax > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both • Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**
477	Failure to deposit TCS	Rigorous imprisonment **3 months to 7 years** and fine	• Tax > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both • Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**

478(1)	Wilful attempt to evade tax / under-reporting	Rigorous imprisonment **3 months to 7 years** and fine	• > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both • Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**
478(2)	Wilful attempt to evade payment of tax	Rigorous imprisonment **3 months to 7 years** and fine	• > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both • Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**
479	Failure to furnish return of income	Rigorous imprisonment **3 months to 7 years** and fine	• > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both • Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**
480	Failure to furnish return in search cases	Rigorous imprisonment **3 months to 7 years** and fine	• > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both • Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**
481	Failure to produce books / documents	Rigorous imprisonment up to **1 year** and fine	**Fully decriminalised**
481	Failure to comply with AO's direction	Rigorous imprisonment up to **1 year** and fine	**Simple imprisonment up to 6 months** / fine / both
482	False statement or false account	Rigorous imprisonment **3 months to 7 years** and fine	• > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both • Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**
483	Falsification of books of account	Rigorous imprisonment **3 months to 2 years** and fine	**Simple imprisonment up to 2 years** and fine
484	Abetment of false return	Rigorous imprisonment **3 months to 7 years** and fine	• > Rs. 50 lakh → Simple imprisonment up to 2 years / fine / both

			• Rs. 10–50 lakh → Simple imprisonment up to 6 months / fine / both • ≤ Rs. 10 lakh → **Only fine**
485	Second and subsequent offences	Rigorous imprisonment **6 months to 7 years** and fine	**Simple imprisonment 6 months to 3 years** and fine
494	Disclosure of information by public servant	Imprisonment up to **6 months** and fine	**Simple imprisonment up to 1 month** / fine / both

Accordingly, detailed amendments have been proposed across sections 473 to 485 and section 494, including search-related offences, TDS/TCS defaults, wilful attempt to evade tax, failure to file returns, non-production of documents, false statements, falsification of accounts, and repeat offences. Several offences relating to TDS on winnings, benefits, online games, and virtual digital assets have been either fully decriminalised or made subject to graded punishment, while certain failures under section 481 have been completely removed from the ambit of criminal prosecution. Headings of relevant sections have also been simplified to improve clarity and consistency. Similar amendments are proposed in corresponding prosecution provisions of the Income-tax Act, 1961

The amendments to **sections 473 to 485 and 494 of the Income-tax Act, 2025** will take effect from **1 April 2026**, while the corresponding amendments to **sections 275A to 278A and 280 of the Income-tax Act, 1961** will take effect from **1 March 2026**

17) Rationalisation of tax rate under section 195 and penalty under section 443 in respect of certain Income:

- Certain incomes like **unexplained cash, investments, assets, expenses and hundi transactions** are treated as special income under the Act.
- At present, such income is taxed at a **very high rate of 60%**, along with a **separate penalty of 10%** of the tax.
- It is now proposed to **reduce the tax rate to 30%**, making it equal to the normal maximum tax rate.
- The **separate penalty of 10% is removed**.
- Instead, penalty will be levied only if the case falls under **misreporting of income**, as per general penalty provisions.
- These changes will apply from **1 April 2026 (Tax Year 2026–27 onwards)**.

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

- At present, **assessment and penalty are two separate processes**. First, the assessment order is passed, and later a separate penalty notice and penalty order are issued.
- The law requires the Assessing Officer to **give a show-cause notice and hearing** before imposing any penalty, to ensure fairness.

- Tax demand must generally be paid within **30 days**, failing which interest and recovery action can start, though some relief is possible.
- There is also a **Dispute Resolution Committee (DRC)** to resolve cases of small and medium taxpayers and reduce litigation.
- This system leads to **multiple proceedings and long uncertainty** for taxpayers, especially when appeals take several years.
- To reduce this, it is proposed that **penalty for under-reporting or misreporting of income will be decided and imposed in the same assessment order** itself.
- Interest on unpaid demand will be charged **only after the appeal is decided** by CIT(A) or ITAT, as applicable.
- Related changes are also proposed in DRC provisions.
- These amendments will apply from **1 April 2027** for assessments or reassessments made on or after that date, with the law coming into force from **1 March, 2026**.

19) Amendment in the provision relating to merger of non-profit organisations (NPOs)

I. What is this amendment about?

This amendment clarifies **when tax on accreted income applies on merger of non-profit organisations (NPOs)** under the Income-tax Act, 2025.

II. What was the problem earlier ?

- If an NPO merged with:
  - A **non-NPO**, or
  - An NPO with **different objects**,

  tax on **accreted income** is applied.

- But the law did **not clearly exempt** mergers:
  - Between **two registered NPOs with the same or similar objects**, even though such exemption existed under the old law (section 12AC of the 1961 Act).

III. What does the amendment do?

i. **New section 354A introduced under Income Tax Act, 2025**
   - No tax on accreted income if:
     - One registered NPO merges with another registered NPO,
     - Both have **same or similar objects**, and
     - Prescribed merger conditions are met.

ii. **Existing provision aligned**
   - Accreted income tax will apply if an NPO merges with:
     - A non-NPO, or
     - An NPO with same objects but **conditions not met**, or
     - An NPO with **different objects**.

IV. Why is this amendment needed?

- To **align the new law with the old Income-tax Act, 1961**.
- To facilitate **genuine restructuring of charitable organisations**.
- To avoid unintended taxation on bona fide NPO mergers.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

20) Amendment of section 332(1)(f) of the Income-tax Act, 2025 to remove certain funds from the requirement of registration

I. What is this amendment about?

This amendment **removes certain funds/entities from the requirement of registration** as a **registered non-profit organisation (NPO)** under the **Income-tax Act, 2025**.

II. What was the issue earlier ?

- Section 332 required **some funds listed in Schedule VII** to apply for **NPO registration**.
- Under the **old Income-tax Act, 1961**, these funds:
  - Were **already exempt** under section 10, and
  - **Did not need registration** to claim exemption.
- The new law unintentionally **added a registration burden**.

III. What does the amendment do?

- **Deletes the reference** to these Schedule VII funds from section 332(1)(f).
- As a result:
  - Such funds **do not need to register** as NPOs.
  - They can continue to enjoy exemption **without additional compliance**.

IV. Why is this amendment needed?

- To **align the new Act with the old law**.
- To avoid unnecessary **procedural compliance**.
- To provide clarity and certainty to affected funds.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

21) Amendment in section 349 of the Income-tax Act, 2025 to provide for filing of belated return by NPO

I. What is this amendment about?

This amendment allows **registered non-profit organisations (NPOs)** to file a **belated (late) return of income** under the **Income-tax Act, 2025**.

II. What was the issue earlier ?

- The law required NPOs to file returns **only within the original due date**.
- There was **no provision for filing a late return**.
- Under the **old Income-tax Act, 1961**, NPOs were allowed to file **belated returns**.
- This created a **stricter rule under the new law** by mistake.

III. What does the amendment do?

- It adds a reference to **section 263(4)** in section 349 of IT Act 2025.
- This explicitly allows **belated filing of returns by NPOs**, similar to the old law.
- Aligns the new Act with established practice.

IV. Why is this amendment needed?

- To avoid **harsh consequences for procedural delays**.
- To give NPOs a **second chance** to comply.
- To ensure consistency with the earlier tax law.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

22) Amendment of section 169 of the Income-tax Act, 2025 relating to providing effect to advance pricing agreement.

The existing provisions of section 168(1) allow filing of a modified return of income only by the person who has entered into advance pricing agreement (APA) with the Board, there was no provision for modification of return filing of return of income by the associated enterprise (AE) whose income and tax liability is correspondingly modified consequent to the APA.

Now, Associated Enterprise (AE), whose income is modified due to an APA entered into by another person, to furnish a return or modified return of income, within a period of 3months from end of month in which the APA was entered.

Applicable only to Agreements which will be entered on or after 1st April, 2026 and in relation to tax year 2026-27.

23) Exemption to a foreign company on any income arising in India by way of procuring data centre services from a specified data centre.

The existing provisions of *section 11 read with Schedule IV* of the Act specifies the eligible income, which shall not be included in the total income of the eligible non-residents, foreign companies and other such persons. To, encourage **investment in data centres and AI infrastructure in India**, it is proposed to **exempt a foreign company from tax on income earned from procuring data centre services in India**. This will only be applicable when foreign company provides services to **Indian users, through an Indian reseller entity.**

New definition for

i. Data centre
ii. Data centre services
iii. Service data centres

Applicable from 1st April, 2026

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

FAST-DS 2026 is a proposed one-time, time-bound disclosure scheme aimed at helping small taxpayers who failed to report foreign assets or foreign income in earlier years, mainly due to oversight or lack of awareness. Such non-disclosures commonly arise from

genuine situations like ESOPs or RSUs earned during foreign employment, old bank accounts from student days, overseas insurance or savings of returning non-residents, or short-term deputations abroad. With increased international exchange of financial information, the tax authorities are now able to detect these foreign holdings, leading to a higher risk of action under the Black Money law.

Under this scheme, eligible taxpayers can voluntarily declare undisclosed foreign assets and related income by paying applicable tax or a prescribed fee, based on how the asset was acquired. In return, they will receive limited immunity from penalties and prosecution under the Black Money Act for the disclosed items. However, the scheme does not cover cases where prosecution has already started or where the assets are linked to criminal activities. The scheme will be introduced through the Finance Bill, 2026 and will apply from a date to be notified by the Central Government.

This scheme is favorable for the assessee as it offers a practical and less punitive route to correct genuine past mistakes and achieve tax compliance in an environment of increased global transparency. It provides certainty and closure while avoiding harsh penalties and prolonged litigation under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

25) Amendments in Chapter XIII -G for giving effect to extension of Tonnage tax scheme to Inland Vessels

I. What is this amendment about?

The government has **extended the Tonnage Tax Scheme** (a concessional tax regime for shipping companies) to **inland vessels**.

This amendment **fine-tunes existing provisions** so that the scheme works smoothly for **inland water transport vessels** under the **Inland Vessels Act, 2021**.

II. What changes are being made?

- Tonnage will be based only on a **valid certificate**, to avoid ambiguity.
- **Correct certificate recognised**: Since inland vessels do **not get a separate tonnage certificate**, the **Certificate of Registration** (which shows net tonnage) will be accepted.
- **Income coverage expanded**: Passenger-related onboard and shore activities of **inland vessels** will also qualify as core shipping income.
- **Training requirements aligned**: Training rules for inland vessels will follow **guidelines issued by Inland Waterways Authority of India (IWAI)**, instead of Director-General of Shipping.
- **Compliance certificate authority changed**: Certification of training compliance for inland vessels will be issued by the **designated inland authority**, not DG Shipping.
- **Average tonnage calculation updated:** Computation rules will now involve **IWAI** for inland vessels.
- **Definition added:** "Inland Waterways Authority of India" is formally defined in the Act.

III. Why is this amendment needed?

- **To operationalise the tonnage tax benefit already extended to inland vessels**
- To remove **practical mismatches** between shipping law and tax law
- To promote **inland water transport** as a cost-effective and green alternative

Income-tax Act (Chapter XIII-G amendments) w.e.f. 1 April 2026 Applicable from Tax Year: AY 2026-27 onwards.

26) Widening scope of deduction under section 149 by including ancillary activities of cattle feed and cotton seeds

- Currently, **primary co-operative societies** get **100% deduction of business profits** if they supply products like **milk, oilseeds, fruits, or vegetables** grown by their members to:
  - a federal co-operative society, or
  - the Government, local authority, Government company, or corporation engaged in the same business.
- However, similar activities such as **supplying cattle feed and cotton seeds**, though carried out by members, are **not specifically covered**.
- It is now proposed to **include profits from supplying cattle feed and cotton seeds** within the same deduction provision.
- This amendment will apply from **1 April 2026**, i.e. **Tax Year 2026–27 onwards**.

27) Rationalization of Schedule XI relating to Provident Funds

I. What is this amendment about?

This amendment **simplifies and updates tax rules for Recognised Provident Funds (RPFs)** so they match today's **EPF law and practice**, especially after introducing a **₹7.5 lakh annual cap on employer contributions**.

II. What are the key changes?

i. **Old contribution-matching rules removed**
   - Earlier rules required employer contribution to broadly match employee contribution.
   - These are removed because a **₹7.5 lakh overall cap** now applies.

ii. **Clear eligibility for RPF recognition**
   - Only PFs **exempted under section 17 of the EPF Act** can be recognised for tax purposes.

iii. **Outdated salary-based relaxations removed**
   - Old exceptions based on **₹500 salary or bonus structure** are deleted as irrelevant today.

iv. **12% employer contribution limit removed**
   - Earlier, employer contribution above **12% of salary** was taxable.
   - This is removed since the **₹7.5 lakh cap** already governs taxation.

v. **Shareholder–employee distinction removed**
   - Special limits for employees who were also shareholders are deleted.

vi. **PF investment limits modernised**
   - The rigid **50% cap on government securities (investment)** is removed.
   - Investments will instead follow **EPF regulatory norms**.

III. Why is this amendment needed?

- To remove **outdated and overlapping rules**.
- To align tax law with **modern EPF framework**.
- To reduce compliance complexity and contradictions.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

28) Exemption of income on compulsory acquisition of any land under the RFCTLARR (Rights to fair compensation and transparency in land acquisition, rehabilitation and Resettlement act) Act.

Currently, Section 11 and Schedule III of the Income-tax Act provide certain exemptions for individuals and Hindu Undivided Families (HUFs), including exemption of capital gains from transfer of agricultural land under certain conditions. The **RFCTLARR Act, 2013** provides that income-tax is not to be levied on compensation received for compulsory acquisition of land (except under section 46 of that Act).

To remove any confusion, CBDT had clarified in Circular No. 36/2016 that compensation received under the RFCTLARR Act, which is exempt from tax under that Act, is also **not taxable under the Income-tax Act,** even if the Income-tax Act does not specifically mention it.

To align the Income-tax Act with the RFCTLARR Act, it is proposed to amend Schedule III to explicitly provide **exemption of income on any award or agreement for compulsory land acquisition** made on or after **1 April 2026** (except awards or agreements under section 46 of the RFCTLARR Act).

This amendment will take effect from **1 April 2026** and apply to the **tax year 2026-27 and onwards.**

UNFAVOURABLE POINTS

1. **Increase in tax rates of Securities Transaction Tax.**

I. What is this amendment about?

This amendment **increases Securities Transaction Tax (STT)** on **derivatives trading** (options and futures) to curb excessive speculation and reflect the maturity of the derivatives market.

II. What changes are being made?

STT rates on **sale** of options and futures are being **increased**.

Comparison Table – STT Rates (Before vs After)

Transaction Type	**Existing STT Rate**	**Proposed STT Rate**	**Tax Base**
Sale of option (not exercised)	0.10%	**0.15%**	Option premium
Sale of option (on exercise)	0.125%	**0.15%**	Intrinsic value
Sale of futures	0.02%	**0.05%**	Traded price

III. Why is this being done?

- To address **high speculative activity** in futures and options.
- To align tax with the **scale and depth** of the derivatives market.
- To maintain **transparent, exchange-traded** market discipline.

IV. Practical impact

- **Higher transaction cost** per trade in derivatives.
- **Frequent traders** and high-volume participants will feel the impact most.
- Long-term investors (cash market) are **not affected**.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

2. **Allowing the filing of updated return after issuance of notice of reassessment:**
   It increases the tax burden on the assessee by imposing an extra **10% additional income-tax** under **section 267** when the updated return is filed after issuance of a reassessment notice, which may be costly especially where the reassessment is legally weak.
   The favourable part is discussed in point number 4 of the favourable in union budget 2026**.**

3. **Application of TDS on supply of manpower**

   Section 393(1) of the Act provides for tax deduction at source (TDS) on payments made to contractors and for professional or technical services. For payments to contractors, the TDS rate is 1% for individuals or HUFs and 2% for others. For professional or technical services, the TDS rate is 2% in some cases (like technical services, royalty for films, or call centre operations) and 10% in other cases. There is also a 2% TDS rate for payments made by individuals or HUFs to contractors, for commission or professional services not covered above.

Currently, there is **confusion** about which TDS rate should apply to payments for supply of manpower whether it should follow the rates for "work" or for professional/technical services.

To remove this confusion, it is proposed to classify **supply of manpower as "work"** under section 402(47). This will ensure that the TDS provisions for "work" under section 393(1) will apply.

This amendment will come into effect from **1 April 2026.**

4. Rationalisation of TCS rates

The proposed rate change in TCS u/s 394(1) is as follows –

Sr. No	Nature of receipt	Current rate	Proposed rate
1.	Sale of alcoholic liquor for human consumption.	1%	2%
2.	Sale of tendu leaves.	5%	2%
3.	Sale of scrap.	1%	2%
4.	Sale of minerals, being coal or lignite or iron ore.	1%	2%

5. Non-allowability of Interest as a deduction against Dividend Income

I. What is this amendment about?

This amendment **disallows interest deduction** against **dividend income and mutual fund income** under the **Income-tax Act, 2025**.

II. What was the rule earlier?

- Dividend and mutual fund income are taxed as **"Income from other sources."**
- Earlier, taxpayers could deduct **interest** (like loan interest used to invest) **up to 20%** of such income.

III. What does the amendment change?

- **No interest deduction at all** will be allowed for:
  - Dividend income, or
  - Income from units of mutual funds.
- The earlier **20% cap is completely removed**.

In short:

Even if you borrowed money to invest, the interest cannot be claimed as a deduction.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

6. Clarification regarding jurisdiction to issue notice u/s 148 where income has escaped assessment and for carrying out pre-assessment procedure u/s 148A.

i. What is the reassessment process in simple terms?

When the Income Tax Department believes that some income was missed earlier, the law allows it to reopen the case. This happens in two stages:

Stage 1: Before reopening (pre-assessment)

- The Assessing Officer (AO) sends a show-cause notice (section 148A).
- The AO checks facts and hears the taxpayer.

- If satisfied, the AO passes a reasoned order and issues a notice to reopen (section 148).

Stage 2: After reopening

Once section 148 notice is issued, the actual reassessment is done facelessly by NaFAC.

ii. Where did the confusion arise?

- Some reassessment notices were issued where:
  - NaFAC or its assessment units handled the pre-assessment stage.
- Courts disagreed on whether this was legally valid:
  - Some High Courts favoured the taxpayer.
  - Others favoured the Revenue.
- The issue reached the Supreme Court.

iii. What does this proposed amendment clarify?

The amendment clearly states:

- Only the jurisdictional (regular) Assessing Officer can:
  - Conduct enquiries under section 148A.
  - Issue notice under section 148
- NaFAC and its assessment units cannot do this pre-assessment work.
- Faceless assessment applies only after section 148 notice is issued.

The law also says this clarification applies despite any court judgment.

iv. Why is this clarification being introduced?

- To end conflicting court decisions
- To reduce litigation
- To ensure the same interpretation under:
  - Income-tax Act, 1961 (current law)
  - Income-tax Act, 2025 (new law from 1 April 2026)

v. What is the most critical part?

Retrospective effect

- This clarification applies from 1 April 2021.
- It treats the law as if this was always the position.

So:

- Past reassessment notices cannot be challenged merely because of who handled the pre-assessment stage, if aligned with this clarified intent.

vi. Impact explained in very simple terms

Before this amendment

- Taxpayers were successfully arguing:
  - “Wrong authority issued the notice”
  - “NaFAC had no power to issue 148A / 148”
- Many reassessments were quashed on technical grounds.

After this amendment

- Government says:
  - “We always meant the local AO to do this”
  - “Court rulings saying otherwise should be ignored”

This closes an important technical defence for taxpayers.

7. Penalty provision for non-furnishing of statement or furnishing inaccurate information in a statement on transaction of crypto-assets.

I. What is this amendment about?

This amendment introduces **penalties** for:

- **Not filing**, or
- **Filing incorrect information** in the statement relating to **crypto-asset transactions**, which certain persons are required to file.

II. Who is required to file this statement?

- **Prescribed reporting entities (such as crypto exchanges or intermediaries)**
- They must report **crypto-asset transaction details** under section 509.

III. What penalties are being introduced? (Penalties has been defined in Budget 2026)

i. Late or non-filing of statement

- **₹200 per day** of default.

ii. Furnishing incorrect information

- **₹50,000** penalty if:
- Wrong details are furnished, and
- The inaccuracy is not corrected.

IV. Why is this amendment being made?

- To **ensure proper reporting** of crypto transactions.
- To **deter non-compliance and misreporting**.
- To strengthen tax monitoring in the crypto ecosystem.

The amendment will take effect from the **1st day of April, 2026**.

8. Rationalization of Penalties into Fee

- Currently, the Act provides penalties for:
- Not getting accounts audited.
- Not submitting audit reports for international or specified domestic transactions.
- Not filing statements of financial transactions.
- The government feels that penalties for technical or procedural delays cause unnecessary litigation.
- Therefore, it is proposed to replace certain penalties with fixed fees, which are simpler and compulsory.
- At present, belated returns can be filed without payment of late fees; however, under the proposed provisions, filing of such returns will be permitted only after payment of the applicable late fees.

Section	**Nature of default**	**Existing penalty provision**	**Amount under new provision**
446	Failure to get accounts audited	Penalty of lower of 0.5% of turnover or ₹1,50,000	Graded fee of ₹75,000 or ₹1,50,000 based on delay
447	Failure to furnish report under section 172 (international or specified domestic transactions)	Fixed penalty of ₹1,00,000	Graded fee of ₹50,000 or ₹1,00,000 based on delay
454(1)	Failure to furnish statement of financial transactions or reportable account	₹500 per day	Fee as prescribed instead of daily penalty
454(2)	Contin ued failure after notice	₹1,000 per day with no upper limit	Maximum penalty capped at ₹1,00,000

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

- The Income-tax Act allows tax authorities to **collect information from business premises** during the course of business or profession.
- If a person **fails to provide the required information**, a penalty can be imposed.
- Currently, the **maximum penalty is only ₹1,000**, which is considered too low.
- To ensure better compliance, it is proposed to **increase the maximum penalty to ₹25,000**.

- This change will apply from **1 April 2026**, i.e., **Tax Year 2026–27 onwards**.

10. Expanding the scope of immunity from penalty or prosecution under section 440 of the Act

- **Section 440** allows an assessee to get **immunity from penalty and prosecution** if:
  - The tax and interest are paid on time, and
  - No appeal is filed against the assessment order.
- At present, immunity is **available only for under-reporting of income**, not for **misreporting of income** (which is more serious).
- Now it is proposed that **immunity will also be allowed in cases of misreporting**, but only if the taxpayer pays **additional tax instead of penalty**.
- Proposed additional tax to get immunity:
  - **100% of tax payable** for misreporting cases.
  - **120% of tax payable** for unexplained income cases (sections 102 to 106), since separate penalty is being removed and merged into misreporting provisions.
- This is meant to help taxpayers **settle disputes early and avoid litigation**.
- However, although the provision grants immunity, it does so at the cost of payment of substantially higher additional tax and therefore, in effect, the provision is unfavourable to the assessee
- These changes will apply from **1 April 2026 (Tax Year 2026–27 onwards)**

Particulars	**Existing provision**	**Proposed amendment**	**Additional tax payable for immunity**
Scope of immunity under section 440	Immunity available only for under-reporting of income (not misreporting)	Immunity extended to cases of under-reporting due to misreporting	100% of tax payable on such income
Unexplained income under sections 102 to 106	Separate penalty under section 443	Penalty omitted and merged into misreporting under section 439(11); immunity allowed	120% of tax payable on such income
Conditions for immunity	Tax and interest paid on time and no appeal filed	Same conditions continue	Not applicable
Time limits	Application within 1 month; AO order within 3 months	No change	Not applicable
Applicability	—	From 1 April 2026	Tax Year 2026–27 onwards

11. Expanding the scope of immunity from imposition of penalty or prosecution under section 270AA.

- Section 270AA allows an assessee to get **immunity from penalty and prosecution** if:
  - Tax and interest are paid within the time mentioned in the demand notice, and
  - No appeal is filed against the assessment order.

- Currently, immunity is available **only for under-reporting of income**, not for cases involving **misreporting**.
- It is now proposed to **extend immunity even to misreporting cases**, provided the assessee pays **additional tax equal to 100% of the tax payable** on such income.
- The amendment will apply from **1 March 2026**, including **AY 2026–27 and earlier assessment years**.
- **Although the provision extends immunity to misreporting cases, it does so at the cost of payment of additional tax equal to 100% of the tax payable, which is substantially higher and, therefore, makes the provision unfavourable for the assessee.**
- The amendment, while reducing litigation, imposes a heavy financial burden on taxpayers, thereby limiting its practical benefit to assessees.

12. Assessments not to be invalid on ground of any mistake, defect or omission on account of computer-generated DIN, if such assessment is referenced by computer generated DIN in any manner.

I. What is this amendment about?

Earlier, some tax assessments were **cancelled by courts** only because the **DIN (Document Identification Number)** was:

- Missing in parts of the order, or
- Not printed properly, even though it was generated.

This amendment says:

An assessment will NOT become invalid just because of minor DIN-related mistakes, as long as the order is linked to a valid DIN in any manner.

II. What is the practical effect?

- Small technical errors in quoting DIN **cannot be used to cancel assessments**.
- Courts cannot annul assessments solely on DIN defects.
- The focus shifts from **technical lapses to merits of the case**.

Clarification in Income-tax Act, 1961 shall come into force with **retrospective effect from 1st day of October, 2019**. The amendment in I**ncome-tax Act, 2025** shall come into force with effect **from 1st day of April, 2026**.

13. Clarifying time-limit for completion of assessment under section 144C.

I. What is this amendment about?

This amendment clarifies **how time limits work** for completing assessments under **section 144C** (cases involving **transfer pricing** or **non-residents**).

II. How does section 144C work?

1. **Draft order issued** by the Assessing Officer (AO).
2. Taxpayer can:
    - **Accept** the draft, or
    - **Object before the DRP** (Dispute Resolution Panel).
3. **Final assessment** is passed after acceptance or DRP directions.

III. Where was the confusion?

- **Section 153 / 153B** prescribe **overall time limits** for assessments.
- **Section 144C** gives **specific time limits** for completing assessment **after** the draft stage (generally **1 month**).
- Courts gave **conflicting views**:
  - Some said the **entire 144C process must fit within section 153/153B**.
  - Others said **144C timelines override 153/153B** for finalization.
- Even the Supreme Court had **split views**.

IV. What does the amendment clarify?

- **Section 153 / 153B timelines apply only up to the draft order stage**.
- **Section 144C timelines apply exclusively to finalization** after:
  - Acceptance of draft, or
  - Receipt of DRP directions.
- This applies **notwithstanding any court judgment**.

In short:

Draft stage → governed by 153/153B

Final assessment stage → governed by 144C only

V. Why is this being done?

- To **end conflicting interpretations**
- To **reduce litigation**
- To align the position under:
  - Income-tax Act, 1961, and
  - **Income-tax Act, 2025 (effective 1 April 2026)**

14. Clarifying the manner of computation of sixty days for passing the order by the Transfer Pricing Officer.

I. What is this amendment about?

This amendment clarifies **how the 60-day time limit is counted** for the **Transfer Pricing Officer (TPO)** to pass an order determining arm's length price.

II. What does the law require?

- When a case involves **international or specified domestic transactions**, the AO refers pricing to the **TPO**.
- The TPO must pass his order **at least 60 days before** the assessment time limit expires under **section 153 / 153B**.

III. Where was the confusion?

- Dispute was about **counting the 60 days**:
  - **Taxpayer view (accepted by some courts):** The **last day of assessment limitation should NOT be counted**.
  - **Revenue's intent:** The **limitation end-date should be included** while counting 60 days.
- Because of this, many assessments were **quashed on limitation grounds**, despite sufficient time actually remaining.

IV. What does the amendment clarify?

- The **date on which assessment limitation expires IS INCLUDED** while computing the 60 days.
- Courts' contrary rulings are overridden.
- Assessments will not fail merely due to this method of counting days.

In short:

If 60 days remain including the limitation end-date, the TPO order is valid.

Why is this being done?

- To remove conflicting court interpretations.
- To protect completed transfer pricing assessments.
- To align:
  - **Income-tax Act, 1961 retrospective effect from 1st day of June, 2007, and**
  - **Income-tax Act, 2025 (effective 1 April 2026).**

15. Exemption for Sovereign Gold Bond

I. What is this amendment about?

This amendment **clarifies when capital gains tax exemption is available** on **Sovereign Gold Bonds (SGBs)** issued by the **Reserve Bank of India**.

II. What was the rule earlier ?

- Capital gains on **redemption of SGBs at maturity** were **exempt from tax**.
- The law did not clearly say **who must hold the bond** to claim this exemption.
- This created ambiguity for **secondary market buyers**.

III. What does the amendment clarify?

The exemption will apply **only if**:

i. The bond is **subscribed at the time of original issue**, and
ii. It is **held continuously till redemption at maturity**.

This applies to **all SGB series** issued by RBI.

In short:

Only original investors get capital gains exemption at maturity.

IV. Why is this amendment being made?

- To ensure **uniform treatment** across all SGB issuances.
- To **block tax-free exits** for secondary market purchasers.
- To align the law with the **original policy intent** of encouraging long-term investment.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

General Point:

1. Rationalising due dates for filing of return of Income.

- **Section 263 of Income Tax Act, 2025** now clearly defines who needs to file income tax returns, the types of returns, and due dates. This includes original, belated, revised, and updated returns.
- **Due Date Rationalization (Section 263(1)(c))**:
- **Regular individual taxpayers (ITR-1 & ITR-2):**
  - **Due date remains:** 31st July.
- **Non-audit cases (business/profession and trusts):** Individuals whose accounts are **not required to be audited** now get **extra time** to file returns.
  - **New due date:** 31st August (previously 31st July).
- **Audit cases:**
  - **New due date:** 31st October.
- **Effective Dates:**
- Amendments in **IT Act 2025**: Effective **1st April 2026** (tax year 2026-27 onward).

Sl. No.	**Category of Assessee**	**New Due Date**
1	Any other assessee (individuals filing ITR-1 & ITR-2)	31st July
2	(i) Company (ii) Assessee whose accounts are **required to be audited** (iii) Partner of firm whose accounts are **audited** or spouse (if section 10 applies)	31st October
3	(i) Assessee with business/profession income **not requiring audit** (ii) Partner of firm not requiring audit or spouse (if section 10 applies)	31st August

2. Rationalizing the due date to credit employee contribution by the employer to claim such contribution as deduction

It is proposed to amend section 29(1)(e) to provide that the due date for the said clause shall be the due date of filing of return of income under section 263(1) of the Act.
The amendment will take effect from the 1st day of April, 2026 and will, accordingly, apply to tax year 2026-27 and subsequent tax years.

3. Allowing expenditure on prospecting of critical minerals as deduction

Section 51 of the Act provides for tax deductibility of expenses incurred by an Indian company or resident taxpayers (other than companies) engaged in any operations relating to prospecting or extraction or production of the minerals mentioned in Part A and Part B of the Schedule XII of the Act.
To encourage **prospecting and exploration of critical minerals**, it is proposed to **expand Schedule XII** by adding more minerals. As a result, **expenditure on prospecting and exploration of these new additional critical minerals will also qualify for deduction** under section 51.

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

4. Exemption to a foreign company on income arising on account of providing capital equipment etc. to an electronic goods manufacturer located in a custom bonded area.

Section 11 read with Schedule IV of the Income-tax Act specifies the eligible income, which shall not be included in the total income of the eligible non-residents, foreign companies and other such persons.
To promote **manufacturing of electronic goods in India through contract manufacturers**, it is proposed to **exempt a tax on a foreign company which arises from supplying capital goods, equipment or tooling** to an Indian contract manufacturer, which is located in a custom bonded area and produces electronic goods on behalf of such foreign company for a consideration.
This amendment will take effect from 1st April, 2026 and will, accordingly, apply in relation to the tax year 2026-27 till 2030-2031.

Exclusion of specified business of Non-residents which are under presumptive taxation from the applicability of Minimum Alternate Tax
Certain foreign companies are excluded from the application of Minimum Alternate Tax (MAT) under the present provisions. The income of non-residents derived from certain business who opt for presumptive rate of taxation under section 61 of the Act are also excluded. However, certain other businesses who have opted for presumptive taxation undersection 61 have not been included.

To ensure uniform treatment, it is proposed that two additional businesses of non-residents opting for presumptive taxation will also be excluded from MAT, namely:

- Business of operation of cruise ships, and
- Business of providing services or technology for setting up an electronics manufacturing facility in India to a resident company.

5. Providing definition of "commodity derivative"

I. What is this amendment about?

The amendment **adds a clear definition of "commodity derivative"** in the **Income-tax Act, 2025**.

II. Why is this needed?

- The term **"commodity derivative"** is already defined in the **Income-tax Act, 1961**.
- The same term is **used** in the Income-tax Act, 2025 but **was not defined there**.
- This could have led to **confusion and disputes**.

III. What does the amendment do?

- It **copies the existing definition** of "commodity derivative" from the 1961 Act into:
    - **Section 66 of the Income-tax Act, 2025**.
- Ensures **consistency** between the old and new tax laws.
- Avoids interpretational ambiguity.

6. Providing definition of "authorised person"

I. What is this amendment about?

This amendment **adds a clear definition of "authorised person"** in the **Income-tax Act, 2025**.

II. Why is this needed?

- For certain payments to **non-residents** (like transfer of foreign exchange assets), the law fixes responsibility on an **"authorised person"**.
- This term is **already defined** in the Income-tax Act, 1961.
- The same term was **missing** in the Income-tax Act, 2025, creating possible ambiguity.

III. What does the amendment do?

- It **imports the existing definition** of "authorised person" from the 1961 Act.
- Clarifies **who is responsible for compliance** (such as tax deduction/payment).
- Ensures **consistency** between old and new tax laws.

This amendment will take effect from **1st April, 2026**.

7. Correction of referencing error

I. What is this amendment about?

This amendment **corrects a cross-reference mistake** in the law relating to **clubbing of spouse's income**.

II. What is the issue?

- The law says an individual's income should include:
  i. **Spouse's salary/commission** from a concern where the individual has substantial interest.
  ii. **Spouse's income from assets transferred** by the individual.
- Another sub-section explains **how much of such income should be clubbed**.
- Due to a drafting error, this sub-section **referred to the wrong clause**.

III. What does the amendment do?

- It **corrects the wrong reference**:
  - Changes reference from **salary/commission clause** to the **asset-transfer clause**.
- Ensures the clubbing provision **works exactly as intended**.
- Removes technical inconsistency in the law.

IV. Why is this amendment needed?

- To avoid **interpretation confusion**.
- To ensure correct application of clubbing rules.
- To align drafting with legislative intent.

This amendment will take effect from **1st April, 2026**.

8. Correction of referencing error

I. What is this amendment about?

This amendment **corrects a wrong cross-reference** in the provision dealing with **TDS on sale of immovable property**.

II. What was the error ?

- The law requires **TDS on purchase of property** when:
  - Sale consideration **or** stamp duty value is **₹50 lakh or more**.
- This rule applies to **normal property sales**.
- However, due to a drafting mistake:
  - The note referred to a clause meant for **compulsory acquisition**, not normal sale.

III. What does the amendment do?

- It **fixes the incorrect reference**.
- Clearly links the ₹50 lakh TDS condition to **normal property sale transactions**.
- Ensures the provision reflects the **intended meaning**.

IV. Why is this amendment needed?

- To avoid **confusion or misinterpretation**.
- To ensure correct application of TDS provisions.
- To remove a **pure drafting error**.

This amendment will take effect from **1st April, 2026**.

9. Guidelines to be binding on income-tax authorities and person liable to deduct or collect income-tax

I. What is this amendment about?

This amendment clarifies that **CBDT guidelines issued for TDS/TCS matters are binding** on:

- **Income-tax authorities**, and
- **Persons required to deduct or collect tax**.

II. What was the gap earlier?

- The new law allowed CBDT to issue **guidelines to resolve TDS/TCS difficulties**.
- But it did **not clearly say** whether these guidelines were **binding**.
- The old law (Income-tax Act, 1961) clearly stated they were binding.

III. What does the amendment do?

- It explicitly states that:
  - Such guidelines **must be followed** by tax officers.
  - Deductors and collectors must also **comply with them**.
- Aligns the new Act with the old law.
- Reduces scope for differing interpretations.

This amendment will take effect from **1st April, 2026**.

10. Amendment in the definition of the specified fund

I. What is this amendment about?

This amendment **clarifies the meaning of "specified fund"** in **Schedule VI** of the **Income-tax Act, 2025**. Specified funds for Alternative Investment Fund located in International Financial Service Centre (IFSC)

II. Why is this amendment needed?

- Certain tax provisions apply only to **"specified funds"**.
- The definition in Schedule VI was **not fully aligned** with the definition already existing in **section 10(4D) of the Income-tax Act, 1961**.
- This mismatch could lead to **confusion and disputes**.

III. What does the amendment do?

- It **aligns the definition of "specified fund"** in Schedule VI with:
  - The established definition under **section 10(4D) of the 1961 Act**.
- Ensures **consistency and clarity** in interpretation.
- Avoids uncertainty for funds and tax authorities.

The amendment will take effect from the **1st day of April, 2026** and will, accordingly, **apply to tax year 2026-27 and subsequent tax years**.

11. Rationalization of Minimum Alternate Tax provisions

Under the existing provisions of section 206, companies are subject to **Minimum Alternate Tax (MAT)** at **15% of book profits** (except IFSC units). If MAT is higher than the tax payable under normal provisions, the company has to pay MAT. The **excess MAT paid** can be carried forward as **MAT credit for 15 years** and set off against future normal tax liability. This MAT system applies only under the **old tax regime**.

The proposed amendment brings a **major structural change:**

- MAT paid under the old tax regime will become a final tax, and no new MAT credit will be allowed going forward.
- To compensate, the MAT rate is reduced from 15% to 14%.
- Set-off of existing MAT credit will be permitted only under the new tax regime
- For domestic companies: set-off allowed up to 25% of the tax liability.

For foreign companies: set-off allowed to the extent of difference between normal tax and MAT, but only in the year where normal tax exceeds MAT.

12. Exemption for Disability Pension to armed force personnel

Disability pension is given to members of the Armed Forces who leave service due to a bodily disability caused or worsened by military service. It includes two parts: a service element and a disability element. This exemption has existed since the Income-tax Act of 1922 and continues under the Income-tax Act, 1961.

It is now proposed that the exemption for disability pension (both service and disability elements) will **only apply** to individuals who are invalided out of Armed Forces or paramilitary service due to a disability caused or aggravated by their service. The exemption will **not apply** to those who retire on superannuation or for other reasons.

These amendments will take effect from **1 April 2026** and apply to the **tax year 2026-27 and onwards.**