

# UNION BUDGET 2026 - TAX PROPOSALS

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**FOREWORD:**

The provisions of Finance Bill, 2026 (hereinafter referred to as “the Bill”), relating to direct taxes seek to amend the Income-tax Act, 2025 (‘the Act’), the Income-tax Act, 1961, The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 and the Finance (No. 2) Act, 2004.

As per the Income-tax Act, 2025, applicable from 1 April 2026, the earlier concepts of Previous Year and Assessment Year have been replaced with a single concept of “Tax Year.” The Tax Year is the same as the Financial Year (1 April to 31 March) in which income is earned, and all compliances such as return filing, assessment, notices, and proceedings will now refer only to this Tax Year. This change has been introduced to simplify tax terminology and eliminate confusion arising from the use of two different years, while the core principles of income computation and taxation remain unchanged. Accordingly, throughout this document, we have used the term “Tax Year,” which is synonymous with the Financial Year. The reference of the Act means the existing Income Tax Act, 1961 and also wherever necessary we have also given the reference of the new Income Tax Act 2025 [ which is applicable with effect from 1<sup>st</sup> April 2026 ]

With a view to achieving the above, the various proposals for amendments are organized under the following heads :—

- A. Rates of tax for financial year 2026-2027
- B. Ease of Living
- C. Rationalising penalty and prosecution;
- D. Cooperatives;
- E. Supporting IT sector as India’s growth engine
- F. Attracting global business and investment;
- G. Rationalisation of corporate tax regime
- H. Rationalisation of other direct tax provisions.

We have made our best effort to summarise the key changes in simpler manner under this budget highlights. Trust the same would be found useful in understanding the taxation proposals.

Best Regards,

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**EXECUTIVE SUMMARY**

Section	Description	Particulars	Reference (Click on the link for detailed analysis)
<b>A. Rates of income tax for FY 2026-27</b>			<a href="#">A</a>
Section 29(1)(e) (corresp. s.36(1)(va), IT Act 1961)	Deduction of employee contribution to welfare funds	Employee contributions to PF/ESI etc. deposited by employer shall be allowed as deduction if paid on or before the return filing due date u/s 263(1), instead of due date under labour laws. Effective from Tax year (TY) 2026-27.	<a href="#">A1</a>
Section 11 read with Schedule III (corresp. s.10, IT Act 1961)	Exemption of interest under Motor Vehicles Act	Interest awarded on compensation by MACT for death, permanent disability or bodily injury is exempt in the hands of individual / legal heir. Applicable from TY 2026-27.	<a href="#">A2</a>
Section 393(4) (Table Sl.7) (corresp. s.194A(3)(ix), IT Act 1961)	No TDS on MACT interest	TDS exemption on interest on MACT compensation extended without any monetary threshold. Effective from 1 April 2026.	<a href="#">A3</a>
Section 395 (corresp. s.197, IT Act 1961)	Electronic certificate for lower / nil TDS	Payee may apply electronically to prescribed authority for nil or lower TDS certificate. Authority may issue or reject based on prescribed conditions. Effective from 1 April 2026.	<a href="#">A4</a>
Section 397(1)(a) & (c) (corresp. s.203A, IT Act 1961)	TAN relaxation for purchase from non-resident	Resident individual / HUF buyer not required to obtain TAN for TDS on purchase of immovable property from non-resident under s.393(2). Effective from 1 October 2026.	<a href="#">A5</a>

Section 393(6) (corresp. s.197A, IT Act 1961)	Declaration for no TDS via depository	Declaration for no TDS on dividend / interest / MF income can be filed with depository, which will forward it to payer. Reporting frequency changed to quarterly. Effective from 1 April 2027.	<a href="#">A6</a>
Section 393(1) & Section 402(47) (corresp. ss.194C, 194M, 194J)	TDS on supply of manpower	“Supply of manpower” included in definition of “work”. TDS to apply under contractor provisions (1% / 2%) and not as professional/technical services. Effective from 1 April 2026.	<a href="#">A7</a>
Budget Speech – Policy Signal (IT & Services) Safe Harbour – IT Services (Proposed)	Unified safe harbour framework for IT services	Recognition of IT and services as a unified economic segment <b>Information Technology Services</b> . A common safe harbour margin of <b>15.5%</b> (reduced from the existing range of 17%–24%) is proposed for the unified IT services category covering ITeS, software development, KPO, BPO and software R&D. This simplifies margin disputes and provides a uniform benchmark across sub-segments. The turnover threshold for safe harbour eligibility is proposed to be increased from <b>₹300 crore to ₹2,000 crore</b> , making safe harbour accessible to a much larger base of mid-sized and large IT service providers and enhancing its relevance as a certainty mechanism.	<a href="#">A8</a>
Schedule XIV – Part B (corresp. First Schedule, IT Act 1961)	Deduction for non-life insurers on delayed TDS	Amounts disallowed due to non-deduction/non-payment of TDS to be allowed in year of actual deduction and payment, aligning with s.35(b). Effective from TY 2026-27.	<a href="#">A9</a>

Section 11 read with Schedule III	Exemption on compulsory land acquisition	Income from compulsory acquisition of land under RFCTLARR Act (except s.46 cases) exempt, if acquisition on or after 1 April 2026. Codifies CBDT Circular 36/2016.	<a href="#">A10</a>
(Disability Pension)	Exemption for Armed & Paramilitary Forces	Disability pension (service + disability element) exempt only where individual is invalidated out due to service-related disability. Not applicable on superannuation retirement. Extended to paramilitary forces.	<a href="#">A11</a>
Section 263(1) (corresp. s.139, IT Act 1961)	Rationalisation of return filing due dates	Non-audit business cases shifted to 31 August; audit cases remain 31 October; TP cases 30 November; others 31 July. Applicable from TY 2026-27.	<a href="#">A12</a>
Section 263(5) (corresp. s.139(5), IT Act 1961)	Extended time for revised return	Time limit for revised return extended from 9 months to 12 months from end of tax year; fee payable if revised after 9 months. Effective from TY 2026-27.	<a href="#">A13</a>
Section 263(6)	Updated return – reduction of loss	Updated return permitted where taxpayer reduces previously declared loss, addressing stakeholder concerns. Effective from 1 April 2026.	<a href="#">A14</a>
Section 263 & 267	Updated return after reassessment notice	Updated return may be filed in response to reassessment notice u/s 280; additional tax increased by 10%; no separate penalty on such income. Effective from TY 2026-27.	<a href="#">A15</a>
— (FAST-DS 2026)	Foreign Assets of Small Taxpayers Scheme	Time-bound disclosure scheme for small taxpayers to declare foreign assets/income with tax/fee and limited immunity; excludes prosecution cases and proceeds of crime.	<a href="#">A16</a>
Black Money Act, ss.49 & 50	Prosecution relaxation	Prosecution not to apply for foreign assets (other than immovable property) where	<a href="#">A17</a>

		aggregate value ≤ ₹20 lakh. Retrospective effect from 1 October 2024.	
Sections 473–485, 494	Rationalisation of prosecution	Decriminalisation, graded punishments, replacement of rigorous imprisonment with simple imprisonment, fine-only cases for small defaults, and reduced imprisonment terms. Effective from 1 April 2026.	<a href="#">A18</a>
Section 295 (corresp. s.153C, IT Act 1961)	Block period for “other persons”	Block period for third parties limited to relevant tax years instead of full block, reducing compliance burden. Applicable for searches from 1 April 2026.	<a href="#">A19</a>
Section 296 (corresp. s.153B, IT Act 1961)	Time limit for block assessment	Limitation period linked to initiation of search/requisition; time extended from 12 to 18 months. Applicable for searches from 1 April 2026.	<a href="#">A20</a>
Sections 446, 447, 454, 428	Conversion of penalties into fees	Penalties for audit, TP report and SFT defaults converted into graded mandatory fees to reduce litigation. Effective from TY 2026-27.	<a href="#">A21</a>
Section 274 & Section 220	Penalty within assessment order	Penalty for under-reporting to be levied within assessment order itself; interest u/s 220 to run only after appellate order. Phased applicability from 1 April 2027.	<a href="#">A22</a>
Section 466 (corresp. s.272AA, IT Act 1961)	Enhanced penalty for non-furnishing info	Maximum penalty for failure to furnish information increased from ₹1,000 to ₹25,000. Effective from TY 2026-27.	<a href="#">A23</a>
Section 195 & Section 443 (corresp. s.115BBE & s.271AAC, IT Act 1961)	Rationalisation of tax & penalty on unexplained income	Tax rate on income u/s 102–106 reduced from 60% to 30%; penalty u/s 443 omitted; such income to be covered under misreporting penalty provisions instead. Effective from TY 2026-27.	<a href="#">A24</a>
ITA 2025 – Sec 393(4)	TDS exemption for co-operative banking societies	No TDS on interest (other than interest on securities) paid/credited to co-op society	<a href="#">A25</a>

		carrying on banking business (incl. co-op land mortgage bank).	
ITA 2025 – Sec 2(40)(f) & Sec 69	Taxation of share buyback reworked	Buyback proceeds to be taxed under Capital Gains (not dividend). Promoters: effective tax 30% (additional tax concept); promoter companies: 22%.	<a href="#">A26</a>
STT (Finance (No.2) Act, 2004 – Rate change)	STT hike on derivatives	STT increased: Option sell 0.10%→0.15% (premium); option exercised 0.125%→0.15% (intrinsic); futures sell 0.02%→0.05% (traded price).	<a href="#">A27</a>
ITA 2025 – Sec 70(1)(x)	Sovereign Gold Bond (SGB) capital gains exemption restricted	Exemption only if SGB subscribed at original issue and held continuously till maturity redemption.	<a href="#">A28</a>
ITA 2025 – Schedule XI + Sec 17(1)(h)	Recognised PF provisions aligned to EPF	Removes legacy parity/percentage limits overlapping ₹7.5 lakh cap; recognition tied to EPF Act Sec 17 exemption; aligns training/authority concepts; relaxes Govt securities cap.	<a href="#">A29</a>
ITA 2025 – Sec 93(2)	No interest deduction vs dividend/MF unit income	Removes interest deduction (earlier capped at 20%) for earning dividend / MF unit income.	<a href="#">A30</a>
ITA 2025 – Sec 349 (ref Sec 263(4))	Belated return for registered NPOs enabled	Adds reference to belated return provision so registered NPOs can file belated return.	<a href="#">A31</a>
ITA 2025 – Sec 332(1)(f)	Certain Schedule VII funds not required to register	Removes Schedule VII (Table Sl. 10–16) persons from registration requirement so they need not register under Sec 332.	<a href="#">A32</a>
ITA 2025 – Sec 351 (and Sec 353 context)	General Purpose Utility (GPU) commercial activity not a “specified violation”	Removes “commercial activity by GPU NPO” from specified violation list to avoid cancellation intent mismatch; continues under other violation.	<a href="#">A33</a>

ITA 2025 – Insert Sec 354A + amend Sec 352(4) Table Sl. 8.B	NPO merger & accreted income tax clarified	Sec 352 not to apply if NPO merges into registered NPO with same/similar objects + prescribed conditions. Table rewritten to specify when accreted income tax applies.	<a href="#">A34</a>
ITA 2025 – Sec 536(2)(h)	Repeal & savings expanded (deemed income later)	Brings to tax amounts earlier allowed/excluded under ITA 1961 even without breach, if it would have been taxable under 1961 Act provisions.	<a href="#">A35</a>
ITA 2025 – Sec 400(2)	TDS/TCS difficulty-removal guidelines binding	Guidelines issued for TDS/TCS implementation to be binding on tax authorities and deductors/collectors.	<a href="#">A36</a>
ITA 2025 – Sec 21(5)	Stock-in-trade house property annual value	Annual value Nil up to 2 years from end of FY in which completion certificate obtained (stock-in-trade property).	<a href="#">A37</a>
ITA 2025 – Sec 22(2)	Self-occupied interest cap includes prior- period interest	₹2 lakh cap for interest on borrowed capital to be inclusive of prior-period interest.	<a href="#">A38</a>
ITA 2025 – Sec 262(10)(c)	PAN quoting rules expanded beyond business/professi on docs	CBDT empowered to prescribe PAN quoting in documents for transactions even if not relating to business/profession.	
ITA 2025 – Sec 446 (for Sec 509)	Penalty for crypto statement non- filing / inaccuracy	Penalty: ₹200/day for non-furnishing; ₹50,000 for inaccurate particulars + failure to correct.	
ITA 2025 – Ch XIII-G: Sec 227/228/23 2/235	Tonnage tax: inland vessels alignment	“Valid certificate”, “certificate of registration”; include inland vessels in core activities; training & authority references to IWAI; define IWAI.	<a href="#">A39</a>
ITA 1961 – Sec 92CA(3A) (and ITA 2025	TPO 60-day computation clarified	Clarifies 60 days includes limitation date; overrides contrary rulings.	<a href="#">A40</a>

corresponding)			
ITA 1961 – Sec 153 & 153B (with Sec 144C)	DRP timelines vs overall limitation clarified	Sec 153/153B govern draft order stage; Sec 144C timelines govern finalisation, notwithstanding 153/153B; overrides judgments.	<a href="#">A41</a>
ITA 1961 – Sec 292B (and ITA 2025 corresponding)	DIN technical defects won't invalidate assessments	Assessment not invalid for DIN mistake/omission if DIN referenced in any manner; minor DIN defects in related notices/summons also covered.	<a href="#">A42</a>
ITA 1961 – Sec 148/148A (with NaFAC/144B) + ITA 2025 corresponding)	AO (not NaFAC) to handle 148A/148 jurisdiction	Clarifies “AO” for 148/148A means AO other than NaFAC/units; NaFAC role post-148 as per 144B.	<a href="#">A43</a>
Rationalisation of TCS provisions			<a href="#">A44</a>
ITA 2025 – Sec 206	MAT rationalisation	MAT rate 15%→14%. Old regime: MAT becomes final tax; no new MAT credit. New regime: domestic set-off limited to 25% of tax liability; foreign set-off limited to difference (normal tax – MAT).	<a href="#">A45</a>
ITA 2025 – Sec 2(40) (sub-clause (v) in long line)	Dividend exclusion for group entity loans tightened (IFSC treasury)	Both group entities must be in notified foreign jurisdiction; listing condition retained; foreign jurisdiction to be notified by Central Govt; definitions added for group entity and parent/principal entity.	<a href="#">A46</a>
ITA 2025 – Sec 147	IFSC/OBU deduction period extended + post-deduction tax rate	IFSC: 20 consecutive years out of 25 (from 10/15). OBU: 20 consecutive years (from 10). Post deduction: business income taxed at 15%.	<a href="#">A47</a>
ITA 2025 – Sec 11 r/w Schedule IV	NR individual (notified scheme) foreign income exemption	Eligible NR (NR for prior 5 years) visiting India first time for notified scheme services: exemption on foreign income (not deemed	<a href="#">A48</a>

		India income) for 5 consecutive TYs from first visit TY; subject to conditions.	
ITA 2025 – MAT (Sec 206) r/w Sec 61	Presumptive non-resident businesses excluded from MAT	Adds MAT exclusion for cruise ship operations and services/technology for setting up electronics manufacturing facility (to resident company) when opting presumptive taxation.	<a href="#">A49</a>
ITA 2025 – Sec 11 r/w Schedule IV	Foreign company: capital goods/equipment/tooling to bonded-area contract manufacturer	Exemption up to TY 2030–31 for income from providing capital goods/equipment/tooling to Indian resident contract manufacturer in Customs Act Sec 65 warehouse producing electronic goods on behalf of foreign company.	<a href="#">A50</a>
ITA 2025 – Sec 51 r/w Schedule XII	Prospecting/explo ration of critical minerals allowed	Expands Schedule XII minerals list so prospecting/exploration spend for critical minerals eligible for deferred deduction under Sec 51.	<a href="#">A51</a>
ITA 2025 – Sec 11 r/w Schedule IV	Foreign company: exemption on income from procuring data centre services	Exemption up to TY ending 31-Mar-2047 on India-source/deemed India-source income from procuring DC services from specified DC (MeitY notified; owned/operated by Indian co). Condition: India user services routed via Indian reseller. Definitions added.	<a href="#">A52</a>
ITA 2025 – Sec 169 (with Sec 168(1) context)	APA effect: AE also allowed to file return/modified return	If APA modifies income, APA signatory shall and AE may file return/modified return limited to APA within 3 months from end of month of APA; for APAs entered on/after 01-Apr-2026 covering TYs from 01-Apr-2026 onwards.	<a href="#">A53</a>
ITA 2025 – Sec 2(32)	“Co-operative society” definition expanded	Includes co-operatives registered under Multi-State Co-operative Societies Act, 2002.	<a href="#">A54</a>
ITA 2025 – Sec 149(2)(b)	Co-op deduction widened for ancillary activities	Includes profits from cattle feed and cotton seeds within deduction scope for eligible primary co-op societies.	<a href="#">A55</a>
ITA 2025 – Sec 149(2)(d)	Dividend deductions for co-ops expanded	New regime: deduction for dividends from co-ops to the extent distributed to members. Notified federal co-ops: deduction for company dividends for 3	<a href="#">A56</a>

	(new regime + federal co-ops)	years up to TY 2028–29, only for investments made till 31.01.2026 and dividends distributed to members; applicable in both regimes.	
ITA 1961 – Sec 270AA	Immunity expanded to misreporting cases	Immunity (penalty/prosecution) extended to under-reporting due to misreporting cases; subject to conditions.	<a href="#">A57</a>
ITA 2025 – Sec 440 (with Sec 439/478/47 9; Sec 102–106; Sec 443 omission context)	Immunity expanded to misreporting + unexplained income type additions	Immunity allowed in misreporting cases on additional tax 100% of tax payable; for income of nature Sec 102–106 (unexplained) subsumed into misreporting (Sec 439(11)), immunity allowed on additional tax 120%.	<a href="#">A58</a>
<b><u>CUSTOMS : Amendments in the Customs Act, 1962:</u></b>			<a href="#">B</a>
<b><u>Custom rate changes</u></b>			<a href="#">C</a>
<b><u>Amendments to rules under Customs Act, 1962</u></b>			<a href="#">D</a>
<b><u>GST amendments</u></b>			<a href="#">I</a>

**DIRECT TAXES****A. RATES OF TAXES – TAX YEAR 2026-27 ( Financial year 2026-27)****For Individuals [other than mentioned below], Hindu Undivided Family, Association of Persons, Body of Individuals, Artificial Judicial Person**

The rates provided in **sub-section (1A) of section 115BAC of the Act [ Section 202 of the new income Tax Act 2025]** shall be applicable, as a default, for determining the income-tax payable in respect of the total income. These rates are given in the following table upon satisfaction of certain conditions as per the provisions of section 115BAC.

<b>Total income</b>	<b>Tax rate</b>
Up to 4,00,000	Nil
From Rs. 4,00,001 to Rs. 8,00,000	5%
From Rs. 8,00,001 to Rs. 12,00,000	10%
From Rs. 12,00,001 to Rs. 16,00,000	15%
From Rs. 16,00,001 to Rs. 20,00,000	20%
From Rs. 20,00,001 to Rs. 24,00,000	25%
Above Rs. 24,00,000	30%

The above-mentioned rates shall apply, unless an option is exercised as per provisions of section 202(4). Thus, rates specified in section 202 are the default rates.

<b>Total income</b>	<b>Tax rate</b>
Up to 2,50,000	Nil
From Rs. 2,50,001 to Rs. 5,00,000	5%
From Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

**For Resident Individuals who are of the age of 60 years or more but less than 80 years at any time during the previous year**

<b>Total income</b>	<b>Tax rate</b>
Less than or equal to Rs. 3,00,000	Nil
From Rs. 3,00,001 to Rs. 5,00,000	5%
From Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

**For Resident Individuals who are of the age of 80 years or more at any time during the previous year.**

Total income	Tax rate
Less than or equal to Rs. 5,00,000	Nil
From Rs. 5,00,001 to Rs. 10,00,000	20%
Above Rs. 10,00,000	30%

### **Surcharge**

The amount of income-tax computed as per the above-mentioned provisions ( Both the schemes) shall be increased by surcharge. The rates of surcharge are as under:

Sr. No.	Particulars	Rate of surcharge for old tax regime	Rate of surcharge for new tax regime ( 115BAC- default scheme)
1.	If the total income of the person exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore	10% of income tax	10% of income tax
2.	If the total income of the person exceeds Rs. 1 crore but does not exceed 2 crores	15% of income tax	15% of income tax
3.	If the total income of the person exceeds Rs. 2 crores but does not exceed 5 crores (excluding the income by way of dividend or income under the provisions of section 111A, 112 and 112A of the Act)	25% of income tax	25% of income tax
4.	If the total income of the person exceeds Rs. 5 crores (excluding the income by way of dividend or income under the provisions of section 111A, 112 and 112A of the Act)	37% of income tax	25% of income tax

### **Note:**

- For the income by way of **dividend or income under the provisions of section 111A,112 and 112A** of the Act, the maximum surcharge would be restricted to 15%.
- For the persons who have opted tax slab under section 115BAC (new tax regime) of the Act, the maximum surcharge on the income other than income from dividend and capital gain would be restricted to 25% as against 37%.

- In the case of an association of persons consisting of only companies as its members, the rate of surcharge on the amount of Income-tax shall not exceed 15%.
- Health and Education Cess – 4% of income-tax including surcharge.

### **For Cooperative Societies**

<b>Total income</b>	<b>Tax rate</b>
Less than or equal to Rs. 10,000	10%
From Rs. 10,001 to Rs. 20,000	20%
Above Rs. 20,000	30%

### **Additional Points:**

- The amount of income-tax computed as per the above-mentioned provisions shall be increased by surcharge. In case the total income of the co-operative society exceeds Rs. 1 crore and does not exceed Rs. 10 crores, surcharge would be 7% of such income tax. If the total income exceeds Rs. 10 crores then the surcharge would be 12% of such income-tax.
- Health and Education Cess – 4% of income-tax including surcharge.

### **Note:**

A co-operative society resident in India shall have the option to pay tax at 22% for assessment year 2021-22 onwards as per the provisions of section 115BAD [ Section 203 of the Income Tax Act 2025] , subject to fulfilment of certain conditions. However, the surcharge would be charged at 10% in such cases.

Further, under proposed new section 115BAE of the Act, a new manufacturing co-operative society set up on or after 01.04.2023, which commences manufacturing or production on or before 31.03.2024 and does not avail of any specified incentive or deductions, may opt to pay tax at a concessional rate of 15% for assessment year 2024-25 onwards. However, the surcharge would be charged at 10% in such cases.

### **For Firm or Local Authority**

<b>Total income</b>	<b>Tax rate</b>
On the whole of the total income	30%

**Additional Points:**

- The amount of income-tax computed as per the above-mentioned provisions shall be increased by surcharge. In case the total income of the firm or local authority exceeds Rs. 1 crore – 12% of such income-tax.
- Health and Education Cess – 4% of income-tax including surcharge.

**For Companies**

Particulars	Basis	Tax Rate
Domestic Company	Where its total turnover or the gross receipt in the financial year 2024-25 does not exceed Rs. 400 crores.	25%
Domestic Company	Companies other than those referred Above	30%
Domestic Company	Companies opting Section 115BAA [ Section 200 as per the Income Tax Act 2025] subject to fulfillment of certain conditions	22%
Domestic Company	New Manufacturing Companies opting Section 115BAB subject to fulfillment of certain conditions	15%
Foreign Company	Total Income	35%
Minimum Alternate Tax	Book Profits	15%

**Additional Points:**

The rates of surcharge are as under:

Particulars	Domestic Company	Foreign Company
Total Income less than Rs. 1 crore	0%	0%
Total Income more than Rs. 1 crore but less than Rs. 10 crores	7%	2%
Total Income more than Rs. 10 crores	12%	5%
Companies opting taxation u/s 115BAA and 115BAB (irrespective of the total income)	10%	NA

Health and Education Cess – 4% of income-tax including surcharge.

**DETAILED ANALYSIS****1. Rationalising the due date to credit employee contribution by the employer to claim such contribution as deduction**

**Amendment proposed:** The due date for claiming deduction of employee contributions deposited by the employer towards welfare funds has been rationalised.

**Relevant provision amended:** Section 29(1)(e) of the Income-tax Act, 2025 (*corresponding to section 36(1)(va) of the Income-tax Act, 1961*).

**Earlier position:** Deduction was allowed only if the employee's contribution was deposited within the due date prescribed under the respective labour welfare laws (such as PF Act, ESI Act, etc.).

**New provision:** Employee contributions deposited by the employer shall be allowed as a deduction if credited on or before the due date for filing the return of income.

**Revised definition of "due date":** The due date shall now mean the return filing due date under section 263(1) of the Income-tax Act, 2025 (*corresponding to section 139(1) of the Income-tax Act, 1961*).

**Effective date:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 onwards.

**2. Exemption on interest income under the Motor Vehicles Act, 1988.**

**Provision referred:** Section 11 of the Income-tax Act, 2025 (*corresponding to section 10 of the Income-tax Act, 1961*) read with Schedule III.

**Existing position:** Section 11 of the Income-tax Act, 2025 provides exemption of income of persons included in Schedule III, subject to specified conditions.

**Amendment proposed:** Schedule III is proposed to be amended to provide exemption to an individual or his legal heir in respect of income in the nature of interest received under the Motor Vehicles Act, 1988.

**Nature of income covered:** Interest awarded on compensation by the tribunal under the Motor Vehicles Act, 1988 in cases of:

- Death
- Permanent disability
- Bodily injury.

**Effective date:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.

3. **No tax to be deducted at source in respect of interest on compensation amount awarded by Motor Accidents Claims Tribunal to an individual**

**Provision referred:** Section 393(4) of the Income-tax Act, 2025 [Table: Sl. No. 7, Column C (c)(iv)] (corresponding to section 194A(3)(ix) of the Income-tax Act, 1961).

**Existing position:** No tax is required to be deducted at source on interest on compensation awarded by the Motor Accident Claims Tribunal if such interest does not exceed ₹50,000 during the tax year.

**Amendment proposed:** It is proposed that no tax shall be deducted at source, irrespective of the amount, on interest on compensation awarded by the Motor Accident Claims Tribunal to an individual.

**Effective date:** Applicable from 1 April 2026.

4. **Enabling electronic verification and issuance of certificate for deduction of income-tax at lower rate or no deduction of income-tax.**

**Provision referred:** Section 395 of the Income-tax Act, 2025 (corresponding to section 197 of the Income-tax Act, 1961).

**Existing position:** The payee is required to make an application to the Assessing Officer for issuance of a certificate for nil or lower deduction of tax at source. The Assessing Officer may issue such certificate after due verification, if satisfied that the total income of the recipient justifies lower or nil deduction.

**Amendment proposed:** An option is proposed to be provided to the payee to file the application electronically before the prescribed income-tax authority for issuance of a certificate for nil or lower deduction of income-tax.

**Processing of application:** The prescribed income-tax authority may:

- Issue the certificate, subject to fulfilment of prescribed conditions; or
- Reject the application if the prescribed conditions are not fulfilled or if the application is incomplete.

**Effective date:** Applicable from 1 April 2026.

**5. 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**

**Provision referred:** Section 397(1)(a) and section 397(1)(c) of the Income-tax Act, 2025 (corresponding to section 203A and section 203A(1) provisos of the Income-tax Act, 1961).

**Existing position:**

- Every person deducting or collecting tax is required to obtain a Tax Deduction and Collection Account Number (TAN).
- Where an immovable property is purchased from a resident seller, the buyer is not required to obtain TAN for deducting tax at source.
- Where the seller is a non-resident, the buyer is required to obtain TAN for deduction of tax at source.

**Amendment proposed:** Section 397(1)(c) is proposed to be amended to provide that a resident individual or Hindu undivided family is not required to obtain TAN for deduction of tax at source in respect of consideration for transfer of any immovable property under section 393(2) [Table SI.No. 17] of the Act (corresponding to section 195 read with section 194-IA of the Income-tax Act, 1961).

**Persons covered:** Resident individuals and Hindu undivided families.

**Effective date:** Applicable from 1 October 2026.

**6. Enabling filing of declaration for no deduction to a depository**

**Provision referred:** Section 393(6) of the Income-tax Act, 2025 (corresponding to section 197A of the Income-tax Act, 1961).

**Existing position:** An assessee is required to file a written declaration for no deduction of tax at source to the person responsible for paying income or sum specified in Column C of the Table in section 393(6).

Such income includes:

- Dividend
- Interest from securities
- Income from units of mutual funds.

**Amendment proposed – filing of declaration:** It is proposed to allow the assessee to file the declaration with the depository, which shall, in turn, provide such declaration to the person responsible for paying the income.

**Amendment proposed – reporting timeline:** The time limit for the person responsible for paying such income to furnish the declaration received by them to the prescribed income-tax authority is proposed to be changed from a monthly basis to a quarterly basis.

**Eligibility condition:** The facility to file declaration with the depository shall be available **only where:**

- The investor has held the securities or units in a depository; and
- The securities are **listed on a registered stock exchange in India.**

**Effective date:** Applicable from **1 April 2027.**

## 7. **Application of TDS on supply of manpower**

**Provisions referred:**

- Section 393(1) [Table: Sl. No. 6(i)] of the Income-tax Act, 2025 (*corresponding to section 194C of the Income-tax Act, 1961*)
- Section 393(1) [Table: Sl. No. 6(ii)] of the Income-tax Act, 2025 (*corresponding to section 194M of the Income-tax Act, 1961*)
- Section 393(1) [Table: Sl. No. 6(iii)] of the Income-tax Act, 2025 (*corresponding to section 194J of the Income-tax Act, 1961*)
- Section 402(47) of the Income-tax Act, 2025 (*corresponding to the definition of “work” under section 194C of the Income-tax Act, 1961*)

**Existing ambiguity:** There was ambiguity regarding the applicable TDS provision for supply of manpower, i.e., whether such payments were to be covered under:

- Contractor payments; or
- Fees for professional or technical services.

**Amendment proposed:** It is proposed to include “supply of manpower” within the definition of “work” under section 402(47) of the Act.

**Resulting TDS treatment:** Payments for supply of manpower shall be subject to TDS under:

- Section 393(1) [Table: Sl. No. 6(i)] (contractor payments); or
- Section 393(1) [Table: Sl. No. 6(ii)], as applicable, and not under provisions relating to professional or technical services.

**Applicable TDS rates:**

- 1% where payment is made to an individual or HUF
- 2% in other cases

**Effective date:** Applicable from 1 April 2026.

**8. Budget speech signal – Recognising IT and services as a unified economic segment**

Beyond statutory amendments, the Budget speech carries an important policy signal for the IT and services sector. The Finance Minister explicitly acknowledged that software development services, IT enabled services, knowledge process outsourcing and contract R&D relating to software are deeply interconnected. The proposal to club all these activities under a single category of “Information Technology Services” is an acknowledgement of commercial reality that transfer pricing practitioners have long advocated, and it has been litigated in the courts on factual and technical grounds. While the operational details will be set out through amendments to the rules, this perspective change will have a long-term impact on safe-harbour and non-safe-harbour cases.

**Safe harbour for IT Services (ITeS- Development- KPO-BPO- software R&D combined) – Higher thresholds, lower scrutiny and common margin**

One of the most impactful announcements in the Budget speech is the proposed overhaul of the safe harbour framework for IT services. A common safe harbour margin of 15.5 per cent (Currently 17 to 24 per cent) is proposed for the unified IT services category, alongside a substantial increase in the eligibility threshold from ₹300 crore to ₹2,000 crore. This change alone could make Safe Harbour a viable option for a large segment of mid-sized and even relatively large IT service providers. The announcement in the budget will find its place in the Income-tax Rules soon, which is driven separately from the Finance Bill 2026.

Equally important is the proposal that safe harbour approvals will be granted through an automated, rule-driven process without any need for examination or acceptance by a tax officer. The ability to continue the same safe harbour for a continuous period of five years, at the taxpayer’s choice, adds a level of predictability that the industry has long sought. If implemented as articulated, this could materially reduce administrative friction and compliance uncertainty for the sector. This could act as a go-to option for all FDI in the IT Sector.

**Rationalising the definition of “accountant” under Safe Harbour Rules**

The speech signals an intent to rationalise the definition of “accountant” for the purposes of the Safe Harbour Rules, in line with the broader vision of building globally competitive, home-grown accounting and advisory firms. Currently, the Safe Harbour Rules also allow foreign accountants and firms (subject to fulfilling certain criteria), as an eligible authority, to certify the costs for Low Value Added Services. The speech indicates that there is a possibility that such costs are certified only by an Indian Chartered Accountant, with no reference to foreign firms.

**9. Allowing deduction to non-life insurance business when TDS, not deducted earlier is paid later**

**Provision referred:** Part B of Schedule XIV of the Income-tax Act, 2025 (corresponding to the First Schedule of the Income-tax Act, 1961).

**Existing computation mechanism:**

- Paragraph 4(1)(a) of Schedule XIV provides that, while computing profits and gains of insurance business (other than life insurance), any expenditure or allowance debited to the profit and loss account but inadmissible under sections 28 to 54 shall be added back.
- Section 35(b)(i) and (ii) of the Income-tax Act, 2025 (corresponding to section 40(a)(ia) of the Income-tax Act, 1961) provides that expenditure on which tax is deductible but:
  - not deducted; or
  - deducted but not paid within the due date under section 263(1) (corresponding to section 139(1) of the Income-tax Act, 1961)

shall not be allowed as deduction.

- The said section also provides that such disallowed amount shall be allowed as deduction in the tax year in which the tax is deducted and paid.

➤ **Existing gap identified:**

- Paragraph 4(2) of Schedule XIV allows deduction of amounts payable under section 37 (corresponding to section 37 of the Income-tax Act, 1961) in the year of actual payment.
- However, a similar provision does not exist in Schedule XIV for amounts disallowed under section 35(b)(i) and (ii) and added back under paragraph 4(1)(a).

**Amendment proposed:** It is proposed to insert a new sub-paragraph in Paragraph 4 of Schedule XIV to allow deduction of amounts disallowed under section 35(b)(i) and (ii) in the tax year in which the tax is deducted and paid, as per the provisions of the said section.

**Effective date:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.

**10. Exemption of income on compulsory acquisition of any land under the RFCTLARR Act.**

**Provision referred:** Section 11 of the Income-tax Act, 2025 read with Schedule III (corresponding to section 10 read with the relevant exemption provisions of the Income-tax Act, 1961).

**Existing position under the Income-tax Act:** Schedule III provides exemption to an individual or Hindu undivided family in respect of capital gains arising from transfer of agricultural land, subject to specified conditions.

**Provision under RFCTLARR Act:** Section 96 of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 provides that income-tax shall not be levied on any award or agreement made under the said Act, other than those made under section 46.

**Clarification issued earlier:** CBDT Circular No. 36/2016 clarified that compensation exempt under section 96 of the RFCTLARR Act shall not be taxable under the Income-tax Act, 1961, even in the absence of a specific exemption provision therein.

**Amendment proposed:** Schedule III of the Income-tax Act, 2025 is proposed to be amended to provide exemption in respect of any income arising from any award or agreement made on account of compulsory acquisition of any land under the RFCTLARR Act (other than awards or agreements made under section 46 of the said Act), where such acquisition is carried out on or after 1 April 2026.

**Effective date:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.

#### **11. Exemption for Disability Pension to armed force personnel**

**Nature of income:** Disability pension granted to members of the Armed Forces on being invalided out of service on account of a bodily disability attributable to, or aggravated by, military, naval or air force service, comprising:

- Service element; and
- Disability element.

**Existing position:** Exemption for disability pension was originally provided under the Indian Income-tax Act, 1922, and has continued under the Income-tax Act, 1961 through repeal and savings provisions, notifications, administrative instructions and clarificatory circulars.

**Amendment proposed:** It is proposed to provide exemption of disability pension (both service element and disability element) only in cases where:

- The individual has been invalided out of service on account of a bodily disability attributable to, or aggravated by, such service; and
- The exemption shall not apply where the individual has retired on superannuation or otherwise.

**Extension of benefit:** The exemption is proposed to be made available to paramilitary personnel as well.

**Effective d/ate:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent ax years.

## 12. Rationalising due dates for filing of return of Income.

**Provision referred:** Section 263 of the Income-tax Act, 2025 (corresponding to section 139 of the Income-tax Act, 1961).

**Scope of section:** Section 263 provides the framework for filing of return of income, including:

- Class of persons required to file return
- Due dates
- Types of returns (original, belated, revised and updated returns).

**Rationale for amendment:** To provide additional time to:

- Taxpayers engaged in business or profession not requiring audit;
- Partners of firms not requiring audit; and
- Trusts not requiring audit,

for preparation of books of account and compliance.

**Amendment proposed:** Rationalisation of due dates for filing return of income by amending section 263(1)(c) of the Income-tax Act, 2025.

### Revised due dates proposed:

Sl. No.	Person	Conditions	Due Date
1	Assessee including partners of firm or spouse of such partner (if section 10 applies)	Where provisions of section 172 of the Income Tax act 2025 apply ( corresponding, under the Income-tax Act, 1961, to cases where report under section 92E Transfer pricing compliance is required)	30th November
2	<ul style="list-style-type: none"> <li>➤ Company;</li> <li>➤ Assessee (other than company) whose accounts are required to be audited;</li> <li>➤ Partner of firm whose accounts are required to be audited or spouse of such partner (if section 10 applies)</li> </ul>	Where provisions of section 172 do not apply	31 <sup>st</sup> October

Sl. No.	Person	Conditions	Due Date
3	<ul style="list-style-type: none"> <li>➤ Assessee having income from business or profession not requiring audit;</li> <li>➤ Partner of firm not requiring audit or spouse of such partner (if section 10 applies)</li> </ul>	As above	31st August
4	Any other assessee	—	31st July

**Position of ITR-1 and ITR-2 filers:** Due date for individuals filing ITR-1 and ITR-2 shall continue to be 31st July.

**Corresponding amendment in Income-tax Act, 1961:** Similar amendments proposed in Explanation 2 to section 139(1) of the Income-tax Act, 1961 to extend the due date for non-audit business cases and trusts not requiring audit.

**Effective date – Income-tax Act, 2025:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.

**Effective date – Income-tax Act, 1961:** Applicable from 1 March 2026, i.e., Assessment Year 2026-27 (Previous Year 2025-26).

### 13. Extending the period of filing revised return

**Provision referred:** Section 263 of the Income-tax Act, 2025 (*corresponding to section 139 of the Income-tax Act, 1961*).

**Scope of the provision:** Section 263 prescribes the framework for filing of return of income, including:

- persons required to file a return;
- due dates; and
- types of returns (original, belated, revised and updated).

**Existing provision for revised return:** Section 263(5) of the Income-tax Act, 2025 allows a person who has furnished:

- an original return under section 263(1); or
  - a belated return under section 263(4),
- to file a revised return to rectify any omission or wrong statement.

**Existing time limit:** The revised return is required to be furnished within nine months from the end of the relevant tax year or before completion of assessment, whichever is earlier.

**Issue identified:** The time limit for filing belated return and revised return presently coincides at nine months from the end of the relevant tax year, resulting in no opportunity to revise a return where a belated return is filed at the end of the permitted period.

**Amendment proposed:** It is proposed to amend section 263(5) to:

- extend the time limit for filing a revised return from nine months to twelve months from the end of the relevant tax year; and
- levy a fee under section 428(b) of the Income-tax Act, 2025 for revised returns filed beyond nine months from the end of the relevant tax year.

**Effective date – Income-tax Act, 2025:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.

**Corresponding amendments in Income-tax Act, 1961:**

- Similar amendments proposed in section 139(5) of the Income-tax Act, 1961; and
- A corresponding fee proposed under section 234I of the Income-tax Act, 1961.

**Effective date – Income-tax Act, 1961:** Applicable from 1 March 2026, i.e., Assessment Year 2026-27 (Previous Year 2025-26).

#### **14. Scope of filing of updated return in the case of reduction of losses – reg.**

**Provision referred:** Section 263 of the Income-tax Act, 2025 (*corresponding to section 139 of the Income-tax Act, 1961*).

**Scope of section:** Section 263 provides the framework for filing of return of income, including:

- class of persons required to file a return;
- due dates; and
- types of returns (original, belated, revised and updated).

**Existing provision for updated return:** Section 263(6) of the Income-tax Act, 2025 allows a taxpayer, whether or not a return was furnished earlier, to file an updated return within 48 months from the end of the financial year succeeding the relevant tax year, subject to specified conditions and restrictions.

**Existing restrictions:** An updated return:

- cannot be a return of loss;
- cannot reduce tax liability;
- cannot increase a refund; and
- cannot be filed where assessment, reassessment, search, survey or prosecution proceedings are pending or completed.

**Existing enabling provision:** Section 263(6)(b) permits filing of an updated return where:

- the original return filed under section 263(1) is a return of loss; and
- the updated return filed thereafter is a return of income.

**Existing restriction creating issue:** Section 263(6)(c)(i) restricts filing of an updated return where the updated return is a return of loss for the relevant tax year.

**Issue raised by stakeholders:** Representations were received to allow filing of updated return in cases where the taxpayer reduces the amount of loss, as compared to the loss claimed in the return of loss furnished within the due date under section 263(1).

**Amendment proposed:** It is proposed to amend section 263(6) 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 return of loss furnished within the due date specified under section 263(1).

**Effective date – Income-tax Act, 2025:** Applicable from 1 April 2026.

**Corresponding amendment in Income-tax Act, 1961:** Similar amendment proposed in the Income-tax Act, 1961 to align with the amendments in the Income-tax Act, 2025.

**Effective date – Income-tax Act, 1961:** Applicable from 1 March 2026.

#### **15. Allowing the filing of updated return after issuance of notice of reassessment:**

- **Provision referred:** Section 263 of the Income-tax Act, 2025 (*corresponding to section 139 of the Income-tax Act, 1961*).
- **Scope of section:** Section 263 provides the framework for filing of return of income, including:
  - class of persons required to file return;
  - due dates; and
  - types of returns (original, belated, revised and updated).
- **Existing provision for updated return:** Section 263(6) of the Income-tax Act, 2025 permits a taxpayer to file an updated return within 48 months from the end of the financial year succeeding the relevant tax year, subject to prescribed conditions and restrictions.
- **Existing restrictions:** An updated return:
  - cannot be a return of loss;

- cannot reduce tax liability;
  - cannot increase a refund; and
  - cannot be furnished where assessment, reassessment, search, survey or prosecution proceedings are pending or completed.
- **Existing restriction relating to reassessment:** Section 263(6)(c)(v) prohibits filing of an updated return where any proceedings for assessment, reassessment, recomputation or revision of income are pending or completed for the relevant tax year.
- **Additional income-tax on updated return:** Section 267(5) of the Income-tax Act, 2025 provides for payment of additional income-tax at: 25%, 50%, 60% and 70% of the aggregate of tax and interest payable, for filing updated return in the first, second, third and fourth year respectively from the end of the financial year succeeding the relevant tax year.
- **Amendment proposed – filing after reassessment notice:** It is proposed to amend section 263 to allow filing of an updated return for the relevant tax year in pursuance of a notice issued under section 280 of the Act, within the period specified in such notice. In such cases, the assessee shall be precluded from filing the return of income in any other manner in response to the notice under section 280.
- **Amendment proposed – additional income-tax:** It is proposed to amend section 267 to provide that where an updated return is filed in pursuance of a notice under section 280, the additional income-tax payable shall be increased by a further 10% of the aggregate of tax and interest payable.
- **Penalty implication:** Where additional income-tax is paid as per the proposed provisions, the income on which such additional income-tax is paid shall not form the basis for imposition of penalty under section 439 of the Act.
- **Effective date – Income-tax Act, 2025:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.
- **Corresponding amendments in Income-tax Act, 1961:** Similar amendments proposed to allow filing of an updated return in pursuance of a notice under section 148 (*corresponding to section 280 of the Income-tax Act, 2025*), within the period specified in such notice, and to preclude filing of return in any other manner in response thereto.
- **Effective date – Income-tax Act, 1961:** Applicable retrospectively from 1 March 2026.

#### **16. Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026 (FAST-DS 2026).**

- **Background legislation:** The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 was enacted to deal with undisclosed foreign income and assets held by resident taxpayers.
- **Earlier compliance window:** A one-time compliance window was provided from 1 July 2015 to 30 September 2015 for voluntary declaration of undisclosed foreign assets acquired up to 31 March 2015, on payment of tax and penalty.
- **Issue observed:** Non-compliance is particularly prevalent in cases of legacy or inadvertent non-disclosures by small taxpayers, including:
  - Foreign employment benefits such as ESOPs or RSUs;
  - Dormant or low-value foreign bank accounts of former students;
  - Savings or insurance policies of returning non-residents;
  - Assets held during overseas deputation.Information received under the Automatic Exchange of Information (AEOI) framework also indicates non-disclosure of foreign financial assets by a significant number of PAN holders.
- **Scheme proposed:** It is proposed to introduce a time-bound disclosure scheme for declaration of:
  - foreign assets; and
  - foreign-sourced income, by small taxpayers.
- **Tax / fee and immunity:** The scheme shall provide for:
  - payment of tax or fee, based on the nature and source of acquisition; and
  - limited immunity from penalty and prosecution under the Black Money Act, in respect of matters covered by the declaration.
- **Exclusions:** Cases involving:
  - prosecution; or
  - proceeds of crime,are proposed to be excluded from the scheme.
- **Legislative status and commencement:**
  - The scheme shall form part of the Finance Bill, 2026.
  - It shall come into force from a date to be notified by the Central Government.

#### **17. Relaxation of conditions for prosecution under the Black Money Act**

**Background legislation:** The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 provides for penal and prosecution measures in cases of wilful non-disclosure of foreign income and assets by residents.

**Existing prosecution provisions:** Sections 49 and 50 of the Black Money Act provide for prosecution, including rigorous imprisonment and fine, where a resident:

- wilfully fails to furnish a return of income; or
- wilfully omits to disclose foreign income or foreign assets in the return of income.

**Amendment proposed:** It is proposed to amend sections 49 and 50 of the Black Money Act to provide that the prosecution provisions shall not apply in respect of:

- foreign assets (other than immovable property),
- where the aggregate value does not exceed ₹20 lakh.

**Effective date:** The amendments shall take effect retrospectively from 1 October 2024.

## 18. **Rationalization of prosecution proceedings**

The proposed amendments follow the below principles:

- Replacement of rigorous imprisonment with simple imprisonment, wherever prescribed
- Reduction of maximum imprisonment from 7 years to 2 years, and for subsequent offences from 7 years to 3 years
- Introduction of graded punishment based on amount of tax evaded
- Only fine prescribed where tax evaded does not exceed ₹10 lakh
- Introduction of fine in lieu of or in addition to imprisonment
- Complete decriminalisation of certain offences

### **Section-wise Proposed Changes (Income-tax Act, 2025)**

- **Section 473** – Contravention of order during search Punishment changed from *rigorous imprisonment up to 2 years with fine* to **simple imprisonment up to 2 years and fine**
- **Section 474** – Failure to afford inspection of books during search Punishment changed to **simple imprisonment up to 6 months and/or fine**
- **Section 475** – Removal / concealment / transfer of property to evade recovery Punishment changed to **simple imprisonment up to 2 years and fine**
- **Section 476** – Failure to deposit TDS
  - Certain TDS offences (lottery, crossword, benefits/perquisites) are **fully decriminalised**
  - For other cases, graded punishment introduced:
    - a. Tax > ₹50 lakh → simple imprisonment up to 2 years / fine / both

- b. Tax ₹10–50 lakh → simple imprisonment up to 6 months / fine / both
- c. Other cases → **fine only**
- d. Winnings from online games and virtual digital assets wholly in kind are excluded from prosecution
- **Section 477** – Failure to deposit TCS - Graded punishment introduced on the basis of amount of tax involved (same slabs as section 476)
- **Section 478** – Wilful attempt to evade tax / under-reporting  
Graded punishment prescribed based on amount sought to be evaded (fine only up to ₹10 lakh)
- **Section 479** – Failure to furnish return - Punishment graded based on tax sought to be evaded
- **Section 480** – Failure to furnish return in search cases Punishment graded based on amount of tax
- **Section 481** – Failure to produce books / comply with AO's directions
  - a. Failure to produce books under section 268(1): **fully decriminalised**
  - b. Failure to comply with direction under section 268(5): simple imprisonment up to 6 months / fine / both
- **Section 482** – False statements or accounts - Graded punishment based on amount of tax that would have been evaded
- **Section 483** – Falsification of books - Punishment changed to **simple imprisonment up to 2 years and fine**
- **Section 484** – Abetment of false return- Graded punishment based on amount of tax / penalty / interest sought to be evaded
- **Section 485** – Subsequent offences - Punishment reduced to **simple imprisonment from 6 months up to 3 years and fine**
- **Section 494** – Disclosure of particulars by public servants- Punishment reduced to **simple imprisonment up to 1 month / fine / both**

#### Change in Headings

- **Section 473:** “Contravention of order made during search action”
- **Section 474:** “Failure to afford facility for inspection of books of account during search”
- **Section 478:** “Failure to comply with a direction of special audit or valuation”

**Corresponding Amendments – Income-tax Act, 1961** Similar amendments proposed in sections 275A to 278A and section 280 of the Income-tax Act, 1961, following the same principles of decriminalisation.

**Effective Dates Income-tax Act, 2025:** Effective from 1 April 2026

**Income-tax Act, 1961:** Effective from 1 March 2026

#### 19. **Rationalizing the period of block in case of other persons**

**Provision referred:** Section 295 of the Income-tax Act, 2025 (*corresponding to section 153C of the Income-tax Act, 1961*).

**Existing provision:** Where the Assessing Officer is satisfied that undisclosed income belongs to or pertains to a person other than the person searched (the “other person”), then:

- seized or requisitioned money, bullion, jewellery, virtual digital assets, books of account, documents or material are handed over to the Assessing Officer having jurisdiction over such other person; and
- the Assessing Officer of the other person proceeds against such person under section 294 of the Act (*corresponding to section 153A of the Income-tax Act, 1961*).

**Existing block period:** Under the current provisions, the block period applicable to the specified person and the other person is the same.

**Issue identified:** Even where undisclosed income relating to the other person pertains only to a single tax year, the other person is required to undergo the entire block assessment procedure, resulting in increased compliance burden, despite no search or requisition having been initiated against such person.

**Amendment proposed:** It is proposed to amend section 295(2) of the Income-tax Act, 2025 to limit the period of block in the case of a third party / other person.

**Effective date:** Applicable from 1 April 2026, for cases where search is initiated under section 247 or requisition is made under section 248 on or after 1 April 2026.

#### 20. **Referencing the time limit to complete block assessment to the initiation of search or requisition.**

➤ **Provision referred:** Section 296 of the Income-tax Act, 2025 (*corresponding to section 153B of the Income-tax Act, 1961*).

➤ **Existing provision:** An assessment or reassessment order under section 294 of the Act (*corresponding to section 153A of the Income-tax Act, 1961*) is required to be completed within

12 months from the end of the quarter in which the last search authorisation was executed or requisition was made.

- **Issue identified:** Use of the date of last authorisation as the reference point results in different limitation dates in cases of group searches, despite coordinated investigation and assessment.
- **Amendment proposed:** It is proposed to amend section 296 of the Act to:
  - take the date of initiation of search or requisition as the reference point for computing the limitation period for block assessment; and
  - extend the time limit for completion of such assessment from twelve months to eighteen months.
- **Effective date:** Applicable from 1 April 2026, for cases where search is initiated under section 247 or requisition is made under section 248 on or after 1 April 2026.

## 21. Rationalisation of Penalties to Fee

### Relevant provisions:

- Section 446 of the Income-tax Act, 2025 (*corresponding to section 271B of the Income-tax Act, 1961*)
- Section 447 of the Income-tax Act, 2025 (*corresponding to section 271BA of the Income-tax Act, 1961*)
- Section 454 of the Income-tax Act, 2025 (*corresponding to section 271FA of the Income-tax Act, 1961*)
- Section 428 of the Income-tax Act, 2025 (*corresponding to section 234F / fee provisions under the Income-tax Act, 1961*)

### Existing Penalty Provisions

- **Section 446** – Failure to get accounts audited: Penalty equal to the lower of:
  - 0.5% of total sales / turnover / gross receipts; or
  - ₹1,50,000.
- **Section 447** – Failure to furnish report under section 172: Penalty of ₹1,00,000 for failure to furnish accountant's report in respect of international transactions or specified domestic transactions.
- **Section 454** – Failure to furnish statement of financial transaction / reportable account:
  - ₹500 per day for continuing default under section 454(1);
  - ₹1,000 per day under section 454(2), where failure continues after notice under section 508(7).

**Rationale for amendment** It is considered that penalties for technical delays should be converted into mandatory fees, as fees reduce litigation arising from technical defaults.

**Amendments Proposed**

- Section 446 – Failure to get accounts audited:
  - Penalty under section 446 is proposed to be converted into a fee under section 428(c).
  - Graded fee of ₹75,000 and ₹1,50,000 is proposed, depending upon the period of delay.
  - Section 446 is proposed to be omitted, and replaced by provisions relating to penalty for failure to furnish information or furnishing inaccurate information on crypto asset transactions.
- Section 447 – Failure to furnish report under section 172 ( Transfer Pricing report )
  - Penalty is proposed to be converted into a fee under section 428(4).
  - Graded fee of ₹50,000 and ₹1,00,000 is proposed, depending upon the period of delay.
- Section 454(1) – Failure to furnish statement of financial transaction / reportable account:
  - Penalty under section 454(1) is proposed to be converted into a fee under section 427(3).
- **Section 454(2) – Continuing failure after notice:** An upper limit of ₹1,00,000 is proposed to be prescribed for the existing penalty under section 454(2).

**Effective Date:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.

**22. Imposition of penalty for under-reporting or misreporting of income within Assessment Order:**

**Existing framework:** Under the current provisions, an assessment order is first passed and, based on the findings or additions therein (and subject to appellate proceedings), penalty proceedings are initiated separately. A show-cause notice is issued and a separate penalty order is passed after providing opportunity of being heard to the assessee.

**Penalty procedure (1961 Act):** Section 274 of the Income-tax Act, 1961 prescribes the procedure for imposing penalties, requiring:

- issuance of a show-cause notice;
- grant of reasonable opportunity of being heard; and
- prior approval of higher authorities in specified cases.

**Payment and recovery of demand (1961 Act):** Section 220 of the Income-tax Act, 1961 provides for payment of tax demand within 30 days of service of notice under section 156 and levy of interest under section 220(2) in case of default, with provision for instalments or extension of time in appropriate cases.

**Dispute Resolution Committee (1961 Act):** Section 245MA of the Income-tax Act, 1961 provides for constitution of a Dispute Resolution Committee (DRC) for specified small and medium taxpayers, with powers to reduce or waive penalties and grant immunity from prosecution, subject to conditions.

- **Issue identified:** The existing scheme leads to multiplicity of proceedings and prolonged uncertainty for taxpayers, as penalty proceedings depend on the outcome of assessment and appellate proceedings, which may extend over several years.
- **Amendment proposed – penalty in assessment order:** It is proposed to amend section 274 of the Income-tax Act, 2025 (*corresponding to section 274 of the Income-tax Act, 1961*) to provide that penalty for under-reporting of income under section 270A shall be imposed within the assessment order itself.
- **Amendment proposed – interest on demand:** Section 220 of the Income-tax Act, 2025 (*corresponding to section 220 of the Income-tax Act, 1961*) is proposed to be amended to provide that interest under section 220(2) shall be charged only after passing of the order by the CIT(A) or ITAT (in cases of appeal against DRP orders), as applicable.
- **Consequential amendment:** A consequential amendment is proposed in section 245MA of the Income-tax Act, 2025 (*corresponding to section 245MA of the Income-tax Act, 1961*).

#### **Effective Dates**

➤ **Income-tax Act, 2025:**

- a. Amendments shall come into force from 1 April 2026; and
- b. shall be effective from 1 April 2027 where:
  - any draft assessment order under section 275 is made; or
  - assessment under section 270 or reassessment under section 279 is made, on or after 1 April 2027.

➤ **Income-tax Act, 1961:**

- a. Similar amendments proposed in sections 274, 220 and 234MA;
- b. Amendments shall come into force from 1 March 2026; and
- c. shall be effective from 1 April 2027 where:
  - any draft assessment order under section 144C is made; or
  - assessment under section 143 or reassessment under section 147 is made, on or after 1 April 2027.

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

**Provision referred:** Section 254 of the Income-tax Act, 2025 (corresponding to section 133B of the Income-tax Act, 1961).

**Scope of section:** Section 254 empowers income-tax authorities to collect information from business premises by directing the proprietor, employee, or any other person attending to or assisting in the business or profession, to furnish specified information.

**Existing penalty provision:** Section 466 of the Income-tax Act, 2025 (corresponding to section 272AA of the Income-tax Act, 1961) provides for a penalty where a person fails to comply with section 254 and does not furnish the requisite information. The maximum penalty that may be imposed by the Joint Commissioner, Deputy Director, Assistant Director or Assessing Officer is ₹1,000.

**Rationale for amendment:** It is considered that the maximum amount of penalty should be proportionate, so as to create adequate deterrence and voluntary compliance.

**Amendment proposed:** It is proposed to amend section 466 of the Act to enhance the maximum penalty from ₹1,000 to ₹25,000.

**Effective date:** Applicable from 1 April 2026, i.e., Tax Year 2026-27 and subsequent tax years.

**24. Rationalisation of tax rate under section 195 and penalty under section 443 in respect of certain Income:**

Provisions referred

- Section 195 of the Income-tax Act, 2025 – Tax on income referred to in sections 102 to 106 (corresponding to section 115BBE of the Income-tax Act, 1961)
- Sections 102 to 106 of the Income-tax Act, 2025 – Income on account of unexplained credits, unexplained investments, unexplained assets, unexplained expenditure, and amounts borrowed or repaid through negotiable instruments, including hundi (corresponding to sections 68 to 69D of the Income-tax Act, 1961)
- Section 443 of the Income-tax Act, 2025 – Penalty on income referred to in sections 102 to 106 (corresponding to section 271AAC of the Income-tax Act, 1961)
- Section 439(11) of the Income-tax Act, 2025 – Penalty for under-reporting of income in consequence of misreporting (corresponding to section 270A of the Income-tax Act, 1961)

Existing provisions

- As per section 195(1) of the Income-tax Act, 2025, where the total income of an assessee includes any income referred to in sections 102 to 106, such income is taxable at a flat rate of 60%.
- Further, section 443 of the Act provides for a penalty equal to 10% of the tax payable under section 195(1), where such income is determined in the case of the assessee for any tax year.

#### Amendments proposed

- It is proposed to amend section 195 of the Income-tax Act, 2025 to reduce the tax rate from 60% to 30% on income referred to in sections 102 to 106, in order to rationalise the tax burden.
- It is further proposed to omit section 443 of the Act.
- Income referred to in sections 102 to 106, where determined by the Assessing Officer, shall be covered under the penalty provisions applicable to under-reporting of income in consequence of misreporting, as provided under section 439(11) of the Income-tax Act, 2025.

**Effective date** These amendments shall take effect from 1 April 2026 and shall apply for tax year 2026-27 and subsequent tax years.

#### **25. No tax to be 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)**

##### **Amendment proposed:**

No tax is to be deducted at source on interest income (other than interest on securities) credited or paid to any co-operative society engaged in the business of banking, including a co-operative land mortgage bank.

**Relevant provision amended:** Income-tax Act, 2025 – Section 393(4) (Table: Sl. No. 7, Column C(a)(i)) (Corresponding Section 194A(3)(iii)(a) of the Income-tax Act, 1961).

**Earlier position:** Under Income-tax Act, 2025 – Section 393(4), this specific exclusion for interest paid/credited to co-operative banking societies (incl. co-op land mortgage banks) was not explicitly provided in the non-deduction list; therefore, TDS was required to be deducted on such interest (subject to other general conditions/thresholds, if any).

**New provision:** Income-tax Act, 2025 – Section 393(4) is amended to explicitly provide that no TDS shall be deducted on such interest (excluding interest on securities) when credited/paid to co-

operative societies carrying on banking business, including co-operative land mortgage banks. (This mirrors the exemption in Section 194A(3)(iii)(a) of the Income-tax Act, 1961).

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent years.

## 26. Taxation of buyback of shares

Amendment proposed:

- a. Rationalisation of taxation of share buy-backs — consideration received on buy-back to be taxed as “Capital gains” (instead of being treated as dividend income).
- b. Additionally, promoters to have an effective 30% tax on buy-back gains (tax at applicable rates + an additional tax);
- c. For promoter companies, effective tax to be 22%.

**Relevant provision amended:** Income-tax Act, 2025 – Section 2(40)(f) (buy-back consideration treated as dividend) and Section 69 (recognition of cost of acquisition as capital loss), along with consequential provisions to shift taxation to Capital Gains and impose additional promoter tax. (Corresponding: Section 2(22)(f) of Income-tax Act, 1961 (buy-back treated as deemed dividend w.e.f. 01-10-2024); and the buy-back capital gains framework is covered under Section 46A read with Section 45/48 of Income-tax Act, 1961.)

**Earlier position:** Buy-back proceeds were taxed as dividend income in the shareholder’s hands (with cost of acquisition of shares extinguished on buy-back being recognised separately as a capital loss).

**New provision:** Buy-back consideration will be taxable under “Capital gains” (instead of dividend), i.e., taxation on the gain element (with cost recognition built into the capital gains computation). Further, promoters will face a higher effective tax via an additional tax mechanism: 30% effective (non-corporate promoters) and 22% effective (promoter companies). In this regard, definition of promoters have to clearly ascertained as per the Companies Act 2013.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent years.

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

**Amendment proposed:** Increase in Securities Transaction Tax (STT) rates for derivatives (options and futures) transactions in securities, to curb disproportionate speculation in F&O trading.

**Relevant provision amended:** STT rate provisions under the Securities Transaction Tax framework (levied under the Finance (No. 2) Act, 2004 / STT provisions & rate schedule).

**Earlier position:**

- a. Sale of option in securities: STT @ 0.10% of option premium
- b. Sale of option (where exercised): STT @ 0.125% of intrinsic price
- c. Sale of futures in securities: STT @ 0.02% of traded price

**New provision:**

- a. Sale of option in securities: STT increased to 0.15% of option premium
- b. Sale of option (where exercised): STT increased to 0.15% of intrinsic price
- c. Sale of futures in securities: STT increased to 0.05% of traded price

**Effective date:** 1 April 2026 — revised rates apply to options/futures transactions entered into on or after this date.

**28. Exemption for Sovereign Gold Bond**

**Amendment proposed:** Capital gains exemption on redemption of Sovereign Gold Bonds (SGBs) is being restricted/clarified to apply only when the SGB is subscribed at the time of original issue and is held continuously until redemption on maturity, for all SGB issuances by Reserve Bank of India from time to time.

**Relevant provision amended:** Income-tax Act, 2025 – Section 70(1)(x) (Corresponding: Section 10(34A) read with Section 47(viic) of the Income-tax Act, 1961 — exemption / no-transfer framework for redemption of SGBs issued under the SGB Scheme, 2015).

**Earlier position:** Exemption from capital gains tax was available on income arising from redemption of SGBs issued under the Sovereign Gold Bond Scheme, 2015 (without the explicit condition in the section that the bond must be subscribed in original issue and continuously held till maturity redemption).

**New provision:** Exemption will be available only if the SGB is

- a. subscribed at original issue and
- b. held continuously until redemption on maturity,

covering all SGB series issued by RBI from time to time.

**Effective date:** 1 April 2026, applicable for Tax Year 2026–27 and subsequent tax years.

## 29. Rationalisation of Schedule XI relating to Provident Funds

**Amendment proposed:** Rationalisation of Schedule XI (Recognised Provident Funds) to align Income-tax Rules with the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 and the EPF Scheme, 1952, especially after introduction of a uniform monetary cap of ₹7.5 lakh on aggregate employer contributions (instead of multiple legacy/percentage-based limits).

**Relevant provision amended:** Income-tax Act, 2025 – Schedule XI (Part A & Part C): proposed changes to Part A para 4(c), 4(f), 5(4), 6(a) and Part C para 1(d), 1(e); also referred: Section 17(1)(h) (₹7.5 lakh cap on aggregate employer contributions). (Corresponding: Income-tax Act, 1961 – Fourth Schedule (Part A & Part C) and the employer contribution monetary cap mechanism introduced via Section 17(2)(vii) (and related provisions for taxation of excess employer contributions/annual accretion where applicable).)

**Earlier position:** Recognition/conditions for Recognised Provident Funds in Schedule XI contained legacy rules, including:

- a. Employer contribution restrictions linked to parity with employee contributions and annual crediting requirements (Part A – para 4(c)).
- b. Eligibility for recognition linked to EPF exemption wording that needed clarity (Part A – para 4(f)).
- c. Discretionary relaxations of employer–employee parity based on old salary thresholds/bonus structures (Part A – para 5(4)).
- d. Employer contribution above 12% of salary treated as employee income (Part A – para 6(a)).
- e. Separate limits for employees who are also shareholders (Part C – para 1(d)).
- f. A rigid cap restricting investment in Government securities to 50% (Part C – para 1(e)).
- g. These co-existed with the newer ₹7.5 lakh aggregate employer contribution cap in Section 17(1)(h), creating overlapping/parallel restrictions.

### **New provision:**

- a. Omit Part A – para 4(c): removes parity-based restriction/annual crediting concept, since a unified ₹7.5 lakh cap applies under Section 17(1)(h).
- b. Amend Part A – para 4(f): clarifies that only PFs which have obtained EPF exemption under Section 17 of the EPF Act may apply for recognition under the Income-tax Act, 2025.
- c. Omit Part A – para 5(4): removes the old discretionary relaxation mechanism tied to outdated salary/bonus thresholds, given the ₹7.5 lakh cap.

- d. Omit Part A – para 6(a): removes the >12% of salary deeming provision to avoid overlap with the ₹7.5 lakh cap.
- e. Omit Part C – para 1(d): removes differentiated limits for employees who are also shareholders (not recognised under EPF framework and overlaps with the ₹7.5 lakh cap).
- f. Amend Part C – para 1(e): removes the rigid 50% Government securities cap, while keeping investment oversight through the EPF regulatory framework/subordinate legislation.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

### 30. **Non-allowability of Interest as a deduction against Dividend Income**

**Amendment proposed:** Interest deduction against dividend / mutual fund unit income to be disallowed — no deduction for any interest expenditure incurred to earn dividend income or income from units of mutual funds.

**Relevant provision amended:** Income-tax Act, 2025 – Section 93(2) (Corresponding: Section 57 of the Income-tax Act, 1961 — deduction for dividend income restricted earlier to interest expense capped at 20% of dividend income.)

**Earlier position:** Interest expenditure incurred to earn dividend income / income from units of mutual funds was allowed as a deduction, but restricted to a ceiling of 20% of the gross dividend / gross unit income.

**New provision:** No deduction will be allowed for any interest expenditure incurred to earn dividend income or income from units of mutual funds.

**Effective date:** 1 April 2026

### 31. **Amendment in section 349 of the Income-tax Act, 2025 to provide for filing of belated return by NPO**

**Amendment proposed:** Enable registered Non-Profit Organisations (NPOs) to file a belated return by extending the return-filing reference framework (similar to the facility available earlier under the Income-tax Act, 1961).

**Relevant provision amended:** Income-tax Act, 2025 – Section 349 (return by registered NPO) by adding reference to Section 263(4) (belated return provision). (Corresponding: Section 139(4) of the Income-tax Act, 1961 (belated return), read with provisions applicable to exempt entities/NPOs, as relevant.)

**Earlier position:** Section 349 allowed return filing by a registered NPO only within the time limit under Section 263(1)(c) — i.e., no explicit reference enabling belated return filing under the belated return provision.

**New provision:** Section 349 will be amended to also refer to Section 263(4), thereby allowing registered NPOs to furnish belated returns (where permitted under Section 263(4)).

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

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

**Amendment proposed:** Remove certain specified funds/persons from mandatory NPO registration — entities currently covered via Schedule VII (Table Sl. No. 10 to Sl. No. 16) will not be required to register as a “registered non-profit organisation” merely to claim exemption (aligning with the earlier treatment under the Income-tax Act, 1961).

**Relevant provision amended:** Income-tax Act, 2025 – Section 332(1)(f) (persons eligible/required to apply for registration as registered NPO) — proposed deletion of reference to Schedule VII (Table Sl. No. 10 to Sl. No. 16) persons. (Corresponding: Section 10 of the Income-tax Act, 1961 — specified funds/entities covered under Section 10 exemptions which were not required to obtain separate registration under the 1961 Act regime.)

**Earlier position:** Section 332(1)(f) included persons referred in Schedule VII (Table Sl. No. 10 to Sl. No. 16) within the category of persons who may apply for / be subject to registration as registered NPO, even though under the Income-tax Act, 1961 such persons were not required to register to claim exemption under Section 10.

**New provision:** The reference to such persons (Schedule VII Table Sl. No. 10 to 16) will be removed from Section 332(1)(f) so that these persons/entities need not register under Section 332 to claim the intended exemption benefits.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

### **33. Amendment in the provisions relating to the violations by a registered NPO**

**Amendment proposed:** Relaxation in “specified violation” list for registered NPOs — remove from “specified violation” the violation relating to commercial activities by NPOs engaged in advancement of any other object of general public utility, to avoid unintended cancellation of registration.

**Relevant provision amended:** Income-tax Act, 2025 – Section 351 (specified violations) — proposed removal of reference to the violation on account of commercial activities by general public utility NPOs. Also relevant: Section 353 (other violations) where such violation continues to be covered. (Corresponding: Section 12AB / Section 12AA framework under the Income-tax Act, 1961 for registration/cancellation principles, and the “general public utility” commercial activity contours under Section 2(15).)

**Earlier position:** Commercial activities by a registered NPO carrying out general public utility activities were treated as a “specified violation” under Section 351 (and also covered as an “other violation” under Section 353). Since “specified violation” can lead to cancellation of registration, this created a stricter consequence than intended under the Income-tax Act, 1961.

**New provision:** The reference to this general public utility-commercial-activity-related violation will be removed from Section 351 (specified violation list). It will not trigger cancellation merely on that ground, aligning the approach with the intent under the Income-tax Act, 1961. (It continues to remain covered under “other violation” provisions, as per your extract.)

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

#### **34. Amendment in the provision relating to merger of non-profit organisations (NPOs)**

**Amendment proposed:** Clarify and expand provisions on merger of registered NPOs to ensure that tax on accreted income is not triggered when a registered NPO merges with another registered NPO having same/similar objects, subject to prescribed conditions; and to specify when accreted income tax will apply in other merger scenarios.

**Relevant provision amended:** Income-tax Act, 2025 – Section 352(4) (Table: Sl. No. 8.B) and insertion of a new Section 354A. (Corresponding: Section 12AC of the Income-tax Act, 1961 (merger of charitable institutions and conditions for non-applicability of accreted income provisions), read with accreted income framework provisions applicable to such entities.)

**Earlier position:** Under Section 352(4) (Table Sl. No. 8.B), tax on accreted income was triggered where the registered NPO merged with any entity other than a registered NPO having same or similar objects. However, the law did not explicitly cover/recognise the situation where a registered NPO merges with another registered NPO having same/similar objects with prescribed safeguards, as existed under Section 12AC of the Income-tax Act, 1961.

**New provision:** New Section 354A to provide that Section 352 (accreted income tax) shall not apply where a registered NPO merges with another registered NPO if:

- a. the other registered NPO has same or similar objects; and

- b. the merger fulfils prescribed conditions.

Amend Section 352(4) Table Sl. No. 8 to specify that accreted income tax liability arises where the registered NPO merges with:

- a. an entity other than a registered NPO; or  
b. a registered NPO with same/similar objects, but the merger does not fulfil prescribed conditions;  
or  
c. a registered NPO that does not have same/similar objects.

Effective date: 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**35. Clarifying repeal and savings clause where amount allowed as deduction earlier is to be treated as income in a later year**

**Amendment proposed:** Clarify the repeal & savings clause to ensure that amounts allowed as deduction / not taxed earlier under the repealed Income-tax Act, 1961 can be brought to tax under the Income-tax Act, 2025 in a later year, not only in cases of violation of conditions, but also in cases where—even without any violation—such amount would have been taxable under the 1961 Act had it continued.

**Relevant provision amended:** Income-tax Act, 2025 – Section 536(2)(h) (Corresponding: “repeal and savings” / transitional principles under the Income-tax Act, 1961 regime)

**Earlier position:** Section 536(2)(h) covered only cases where a deduction/exclusion under the repealed Income-tax Act, 1961 became taxable on violation of specified conditions (i.e., income deemed in the year of violation).

It did not cover situations where, under the 1961 Act itself, an amount could become taxable in a later year even without any violation (simply due to the operation of the 1961 Act provisions).

**New provision:** Section 536(2)(h) will be expanded to deem such amounts as income under the Income-tax Act, 2025 even without violation of conditions, if the amount would have been included in total income under the Income-tax Act, 1961 had that Act not been repealed.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

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

**Amendment proposed:** Make CBDT/Board guidelines issued to remove difficulties in implementing TDS/TCS provisions explicitly binding on both income-tax authorities and persons responsible to deduct/collect tax.

**Relevant provision amended:** Income-tax Act, 2025 – Section 400(2) (Corresponding: Section 119 of the Income-tax Act, 1961 — instructions/directions to authorities; and the general principle that such issued guidelines/instructions are binding on the department and relevant persons, as provided in the 1961 framework.)

**Earlier position:** Section 400(2) permitted the Board (with prior Central Government approval) to issue guidelines to remove difficulties in giving effect to the TDS/TCS chapter, and required them to be laid before Parliament; however, it did not explicitly state that such guidelines are binding on tax authorities and on deductors/collectors.

**New provision:** Section 400(2) will be amended to explicitly provide that such TDS/TCS difficulty-removal guidelines shall be binding on:

- a. Income-tax authorities, and
- b. Persons liable to deduct or collect income-tax.

**Effective date:** 1 April 2026.

### **37. Correction in provisions relating to Income from House Property and Permanent Account**

#### **Number**

#### **A. Income from House Property – property held as stock-in-trade (annual value)**

**Amendment proposed:** Align the provision so that annual value of house property held as stock-in-trade is taken as Nil up to 2 years (from end of FY of completion certificate), consistent with the 1961 Act.

**Relevant provision amended:** Income-tax Act, 2025 – Section 21(5) (Corresponding: Section 23(5) of the Income-tax Act, 1961)

**Earlier position:** Section 21(5) did not correctly mirror the 1961 Act position for the period for which annual value is treated as Nil for stock-in-trade property, creating a mismatch.

**New provision:** Annual value of property held as stock-in-trade to be taken as Nil up to two years from the end of the financial year in which the completion certificate is obtained from the competent authority.

**Effective date:** 1 April 2026.

**B. House property deduction – interest on borrowed capital (self-occupied) including prior-period interest**

**Amendment proposed:** Clarify that the ₹2,00,000 cap for interest deduction for self-occupied house property acquired/constructed with borrowed capital will be inclusive of prior-period interest payable.

**Relevant provision amended:** Income-tax Act, 2025 – Section 22(2) (Corresponding: Section 24(b) of the Income-tax Act, 1961)

**Earlier position:** The ₹2,00,000 overall cap under Section 22(2) did not expressly include prior-period interest (pre-construction / pre-acquisition period interest) within the cap, unlike the 1961 Act framework where the aggregate interest deduction cap is applied inclusive of such interest (claimed in instalments as per the law).

**New provision:** Section 22(2) to be amended so that the aggregate deduction for interest on borrowed capital (subject to the ₹2,00,000 ceiling for self-occupied property) shall be inclusive of prior-period interest payable.

**Effective date:** 1 April 2026.

**C. PAN quoting rules – extend beyond business/profession documents**

**Amendment proposed:** Expand CBDT's rule-making power to prescribe PAN quoting in documents for specified transactions, even where such documents do not relate to business or profession.

**Relevant provision amended:** Income-tax Act, 2025 – Section 262(10)(c) (Corresponding: Section 139A(5)(c) of the Income-tax Act, 1961)

**Earlier position:** CBDT's rule-making power was limited to categories of documents pertaining to business or profession where PAN must be quoted; it did not clearly cover non-business/non-profession transaction documents.

**New provision:** Section 262(10)(c) to be amended to enable CBDT to prescribe PAN quoting requirements in documents pertaining to transactions (even if not relating to business or profession), in the interest of revenue.

Effective date: 1 April 2026.

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

**Amendment proposed:** Introduce a specific penalty regime to enforce reporting compliance for crypto-asset transaction statements — penalising non-furnishing of the statement and furnishing inaccurate information (and failure to correct it).

**Relevant provision amended:** Income-tax Act, 2025 – Section 446 (penalty provisions) to be amended to cover defaults relating to Section 509 (obligation to furnish statement of crypto-asset transactions). (Corresponding: Section 285BA of the Income-tax Act, 1961 (Statement of Financial Transaction / reportable accounts) and penalty provisions such as Section 271FA (failure to furnish statement) and Section 271FAA (inaccurate information in statement), as applicable.)

**Earlier position:** Section 509 imposed the obligation on the prescribed reporting entity to furnish a statement of crypto-asset transactions, but there was no specific penalty provision in the Income-tax Act, 2025 to deter non-compliance / inaccurate reporting in such statements.

**New provision:**

Through amendment to Section 446, penalties proposed:

- a. ₹200 per day for non-furnishing of the statement; and
- b. ₹50,000 for furnishing inaccurate particulars and failure to correct such inaccuracy.

**Effective date:** 1 April 2026.

**39. Amendments in Chapter XIII -G for giving effect to extension of Tonnage tax scheme to Inland Vessels**

**Amendment proposed:** Make consequential/aligning amendments in Chapter XIII-G (Tonnage Tax Scheme) to operationalise the already-notified extension of tonnage tax benefits to inland vessels registered under the Inland Vessels Act, 2021, including clarification of certificates, inclusion of inland vessels in core activity definition, and training/compliance authority references.

**Relevant provision amended:** Income-tax Act, 2025 – Chapter XIII-G, specifically Sections 227, 228, 232 and 235. (Corresponding: Income-tax Act, 1961 – Chapter XII-G (Tonnage Tax Scheme), including provisions corresponding broadly to Sections 115VD / 115VF / 115VT / 115VZC etc. dealing with computation, relevant shipping income, conditions, and definitions.)

**Earlier position:** Tonnage tax benefits had been extended to inland vessels (Finance Act, 2025), but the Chapter XIII-G provisions still contained ship-centric language / references (certificate terminology, DG Shipping training guidelines, and definitions) that were not fully aligned with the Inland Vessels Act, 2021 and its documentation/regulatory authorities—creating implementation gaps.

**New provision:**

Amendments proposed to Chapter XIII-G to align with Inland Vessels framework:

- a. Section 227(4)(a): replace “certificate” with “valid certificate” (clarity for tonnage determination).
- b. Section 227(9)(b)(iii): replace “certificate” with “certificate of registration” under the Inland Vessels Act, 2021 (since no separate tonnage certificate is issued; registration certificate contains net tonnage).
- c. Section 228(3)(b)(ii)(A): extend inclusion of on-board/on-shore activities of passenger ships in core activities to also cover inland vessels.
- d. Section 232(12): include reference to minimum training requirement guidelines for inland vessels issued by Inland Waterways Authority of India (IWAI) and notified by Central Government (in addition to DG Shipping framework).
- e. Section 232(13): modify certificate submission requirement with return of income to refer to the designated authority for inland vessels (as DG Shipping is not the designated authority for Inland Vessels Act).
- f. Section 232(17): for prescribed computation of average net tonnage, add reference to Inland Waterways Authority of India (in consultation) in case of inland vessels.
- g. Section 235 (definitions): insert definition of “Inland Waterways Authority of India”.

**Effective date:** April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

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

**Amendment proposed:** Clarify how the “60 days” period is to be computed for the Transfer Pricing Officer (TPO) to pass the order—specifically to include the “date of limitation” in the 60-day count, overriding contrary judicial interpretations and reducing litigation.

**Relevant provision amended:** Income-tax Act, 1961 – Section 92CA(3A) Also linked to limitation provisions for assessment: Sections 153 / 153B (Income-tax Act, 1961).

**Earlier position:** Due to litigation and divergent court rulings, the computation of “60 days prior to the limitation date” under Section 92CA(3A) was interpreted by courts in a way that excluded the date of limitation, resulting in annulment of assessments even where the TPO order was passed with what the department considered “60 days remaining”.

**New provision:**

A statutory clarification will be inserted (with a non-obstante override of judgments/orders/decrees) to state how the 60 days must be computed, reflecting legislative intent that the date of limitation is included in the 60-day computation.

Parallel amendment will be made in the Income-tax Act, 2025 to keep the interpretation uniform and minimise disputes.

**Effective date:**

- a. Income-tax Act, 1961: Retrospective from 1 June 2007
- b. Income-tax Act, 2025: From 1 April 2026.

**41. Clarifying time-limit for completion of assessment under section 144C.****Amendment proposed:**

Provide statutory clarity on assessment time-limits in DRP cases (Section 144C) to resolve litigation—confirming that Section 153/153B timelines govern up to the draft order stage, and Section 144C timelines govern finalisation of assessment thereafter (even if the overall Section 153/153B time-limit would otherwise expire).

**Relevant provision amended:**

Income-tax Act, 1961 – Sections 153 and 153B (time limit for assessment / search assessments) to clarify interaction with Section 144C (special procedure for eligible assessee & DRP).

**Earlier position:**

Though Section 144C(4) and Section 144C(13) explicitly provide a 1-month-from-end-of-month time limit to complete assessment notwithstanding Sections 153/153B, courts gave differing interpretations. Some rulings held that the entire Section 144C process must still be completed within the overall Section 153/153B limitation, leading to uncertainty (including a split verdict at the apex court level as mentioned in your extract).

**New provision:**

A non-obstante clarification (overriding judgments/orders/decrees) will be inserted to state that:

- a. Sections 153 and 153B timelines apply to the draft order stage, and
- b. the finalisation stage is governed by Section 144C timelines (i.e., AO gets the Section 144C(4) / 144C(13) time to pass the final order), notwithstanding the limits in Sections 153/153B.

Parallel suitable amendments will be carried out in the Income-tax Act, 2025 to ensure uniform interpretation and reduce litigation.

**Effective date:**

- a. Income-tax Act, 1961 (retrospective):
  - For Section 153: 1 April 2009
  - For Section 153B: 1 October 2009
- b. Income-tax Act, 2025 (prospective): 1 April 2026

**42. 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.**

**Amendment proposed:** Clarify that assessments will not be treated as invalid merely due to mistake/defect/omission in quoting the computer-generated DIN, as long as the assessment order is referenced by the DIN in any manner—to curb annulments on technical DIN-quoting grounds.

**Relevant provision amended:**

Income-tax Act, 1961 – Section 292B (Context reference: CBDT Circular No. 19/2019 dated 14.08.2019 prescribing DIN quoting norms.)

**Earlier position:**

While Section 292B generally protects proceedings that are in substance and effect in conformity with the Act, certain High Court rulings invalidated assessments on technical grounds such as:

- a. DIN not quoted on every page, or
  - b. DIN not quoted in the body of the order,
- even where the DIN was generated and quoted in accompanying communications—leading to litigation and annulments.

**New provision:**

A specific clarification will be inserted in Section 292B (overriding judgments/orders/decrees) to provide that:

- a. No assessment shall be invalid due to any mistake/defect/omission in DIN quoting if the assessment order is referenced by the DIN in any manner; and
- b. As long as DIN is referenced in the assessment order, that will be treated as sufficient compliance, even if there are minor DIN-related defects/omissions in related notices/summons connected to that assessment.

Parallel amendments will be made in the Income-tax Act, 2025 to ensure uniform interpretation and reduce litigation.

**Effective date:** Income-tax Act, 1961 (retrospective): 1 October 2019

- a. Income-tax Act, 2025 (prospective): 1 April 2026

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

Amendment proposed:

Clarify jurisdiction/authority for issuing reassessment notices and conducting pre-assessment procedure—specifically that the Assessing Officer (AO) (and not National Faceless Assessment Centre (NaFAC) / its assessment units) is the authority for actions under Section 148A and Section 148 in cases of income escaping assessment.

Relevant provision amended:

Income-tax Act, 1961 – Sections 148A and 148 (pre-notice procedure and notice for reassessment) with contextual linkage to Section 144B (faceless assessment) and scheme under Section 151A (e-Assessment of Income Escaping Assessment Scheme, 2022).

**Earlier position:**

The law/framework intended a two-step reassessment process:

- a. Pre-assessment enquiry stage (Section 148A + reasoned order under Section 148A(d)) culminating in issuance of notice u/s 148 by the AO, and
- b. Post-notice reassessment to be conducted facelessly via NaFAC under Section 144B.

However, divergent High Court rulings created uncertainty on whether NaFAC / its assessment units must/may be involved even at the pre-assessment notice stage (148A/148), with the issue pending before the Supreme Court.

**New provision:**

A statutory clarification (overriding judgments/orders/decrees) will be introduced to deem that for purposes of Sections 148A and 148, the term “Assessing Officer” means and shall always be deemed to have meant an AO other than NaFAC or any of its assessment units.

This aims to clearly demarcate:

- a. 148A/148 (pre-assessment + notice): jurisdiction with the AO, and
- b. post-148 reassessment proceedings: handled facelessly by NaFAC to the extent provided under Section 144B.

Suitable parallel amendments will be made in the Income-tax Act, 2025 for uniformity and reduced litigation.

**Effective date:**

- a. Income-tax Act, 1961 (retrospective): 1 April 2021
- b. Income-tax Act, 2025 (prospective): 1 April 2026

**44. Rationalisation of TCS rates:**

SI. 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.	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 purposes other than education or medical treatment.	(a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.
6.	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%

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**45. Rationalization of Minimum Alternate Tax provisions****Amendment proposed:**

Rationalisation of MAT:

- MAT rate reduced from 15% to 14% of book profits,
- in the old regime, MAT to be treated as final tax and no fresh MAT credit to be allowed, and
- MAT credit set-off to be restricted/structured primarily for the new regime with separate limits for domestic vs foreign companies—facilitating transition from old to new regime.

**Relevant provision amended:**

Income-tax Act, 2025 – Section 206 (MAT provisions). (Corresponding: Section 115JB of the Income-tax Act, 1961 (MAT) and Section 115JAA (MAT credit framework))

Earlier position:

- a. MAT applicable to companies @ 15% of book profit (other than IFSC units as per the applicable special rate).
- b. If MAT exceeded normal tax, the excess MAT paid was allowed as a MAT credit, carry-forward up to 15 years, set-off in years where normal tax exceeded MAT.
- c. MAT credit mechanism operated under the old tax regime.

**New provision:**

- a. MAT rate reduced to 14% of book profit (from 15%).
- b. Old regime: MAT paid to be treated as final tax; no new MAT credit will be allowed to accrue.
- c. New regime (domestic companies): MAT credit set-off allowed only up to 25% of the tax liability.
- d. Foreign companies: MAT credit set-off allowed up to the difference between normal tax on total income and MAT in the year where normal tax exceeds MAT.

**Objective:** To enable smoother transition from old regime (deductions/exemptions) to new regime.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**46. Rationalisation of certain terms for treasury centres in IFSC**

**Amendment proposed:** Rationalise dividend exclusion for advances/loans between two group entities (relevant to treasury/finance structures in IFSC) by tightening conditions on where the counterparty group entity is located and by shifting notification power for eligible foreign jurisdictions; also define key terms (“group entity”, “parent/principal entity”).

**Relevant provision amended:** Income-tax Act, 2025 – Section 2, clause (40), sub-clause (v) (definition of “dividend” and exclusions).

(Corresponding: Section 2(22) of the Income-tax Act, 1961 (definition of “dividend” / deemed dividend framework, including treatment/exclusions around loans/advances where applicable).)

**Earlier position:**

Advance/loan between two group entities was excluded from “dividend” if:

- a. one group entity is a “Finance company” / “Finance unit”, and
- b. the parent/principal entity of the group is listed on a stock exchange outside India, in a country/territory outside India other than those that may be specified by the Board.

**New provision:**

Sub-clause (v) is amended to (inter alia) require that:

- a. the other group entity to the transaction must also be located outside India in a notified jurisdiction; and
- b. the parent/principal entity is listed on a stock exchange outside India; and

- c. for these purposes, the eligible country/territory outside India will be specified by the Central Government by notification in the Official Gazette (instead of the Board).

Additionally, the following terms will be defined:

- a. "group entity": same meaning as "group entities" in IFSCA (Payment Services) Regulations, 2024 (Reg. 2(1)(m) of Reg. 2).
- b. "parent entity/principal entity": an entity of which other group entities are subsidiaries, and which (i) controls >50% voting power (alone or with subsidiaries) or (ii) controls composition of the Board.

**Effective date:** April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

#### **47. Extension of period of deduction for units in IFSC and rationalization of tax rate**

**Amendment proposed:** Enhance IFSC incentives by extending the 100% deduction window for eligible IFSC units and OBUs, and rationalise the post-deduction tax rate by taxing their business income at 15% after the deduction period ends.

**Relevant provision amended:** Income-tax Act, 2025 – Section 147 (100% deduction for certain incomes of IFSC units and OBUs). (Corresponding: Section 80LA of the Income-tax Act, 1961 (deduction for IFSC units / specified entities including OBUs), read with the special rate framework applicable to eligible IFSC units as notified.)

**Earlier position:**

- a. IFSC units: 100% deduction allowed for 10 consecutive years out of 15 years.
- b. OBUs: 100% deduction allowed for 10 consecutive years.

Post deduction period: no specific concessional tax rate stated here (taxed as per normal applicable provisions).

**New provision:**

- a. IFSC units: 100% deduction to be allowed for 20 consecutive years out of 25 years.
- b. OBUs: 100% deduction to be allowed for 20 consecutive years.

After deduction period: business income of these IFSC units (and OBUs as covered by the section) to be taxed at a concessional rate of 15%.

**Effective date:** April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**48. Exemption to non-residents for rendering services under a notified Scheme in India.**

**Amendment proposed:** Provide tax certainty/exemption to certain non-resident individuals who visit India to render services under a Central Government notified Scheme—by exempting specified foreign income for a defined period, subject to conditions.

**Relevant provision amended:** Income-tax Act, 2025 – Section 11 read with Schedule IV (eligible income not included in total income of eligible non-residents/foreign companies, etc.).

**Earlier position:** Section 11 read with Schedule IV specified certain eligible incomes not includible in total income for eligible non-residents/foreign companies, etc., but there was no explicit, structured exemption for a non-resident individual visiting India for rendering services in connection with a notified Central Government Scheme, covering foreign income for a defined multi-year period.

**New provision:**

Schedule IV will be amended to provide that an individual who:

- a. is a non-resident for five consecutive tax years immediately preceding the tax year of first visit to India for rendering services, and
- b. visits India for the first time to render services in connection with a Central Government notified Scheme, and
- c. fulfils prescribed conditions,

shall be exempt on income accruing/arising outside India (and not deemed to accrue/arise in India) for five consecutive tax years commencing from the first tax year of such visit.

**Effective date:**

1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**49. Exclusion of specified business of Non-residents which are under presumptive taxation from the applicability of Minimum Alternate Tax**

**Amendment proposed:** Extend MAT exclusion to ensure uniform treatment for all specified businesses of non-residents that opt for presumptive taxation—by excluding two additional presumptive businesses from Minimum Alternate Tax (MAT).

**Relevant provision amended:** Income-tax Act, 2025 – MAT provisions (Section 206) read with Section 61 (presumptive taxation for specified non-resident businesses) — amendment to exclude additional specified presumptive businesses from MAT. (Corresponding: Section 115JB of the Income-tax Act, 1961 (MAT) read with presumptive taxation provisions for non-residents such as Sections 44B / 44BB / 44BBA / 44BBB etc., as applicable depending on the specified business.)

**Earlier position:**

- a. Certain foreign companies were already excluded from MAT under existing provisions.
- b. Non-resident income from certain specified businesses opting for presumptive taxation under Section 61 was excluded from MAT.

However, some other specified businesses opting under Section 61 were not covered by the exclusion, resulting in inconsistent treatment.

**New provision:**

Two additional specified presumptive businesses of non-residents will also be excluded from MAT, namely:

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

**Effective date:**

1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**50. 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****Amendment proposed:**

Introduce a targeted tax exemption for foreign companies to encourage electronics manufacturing in customs bonded areas—exempting income arising from providing capital goods/equipment/tooling to eligible Indian contract manufacturers producing electronic goods for the foreign company.

**Relevant provision amended:**

Income-tax Act, 2025 – Section 11 read with Schedule IV (eligible income not included in total income of eligible non-residents/foreign companies, etc.). (Context reference: Customs Act, 1962 – Section 65 (warehouse / customs bonded manufacturing area concept).)

**Earlier position:**

Section 11 read with Schedule IV contained a list of eligible incomes exempt for certain non-residents/foreign companies, but there was no specific exemption entry providing certainty for foreign companies supplying capital goods/equipment/tooling to Indian contract electronics manufacturers located in a custom bonded area producing electronic goods on behalf of such foreign company.

**New provision:**

Schedule IV will be amended to provide that a foreign company will be exempt up to Tax Year 2030–31 on income arising from providing capital goods, equipment or tooling to an eligible Indian resident contract manufacturer who:

- a. is located in a customs bonded area (warehouse referred to in Section 65 of the Customs Act, 1962), and
- b. produces electronic goods on behalf of the foreign company for consideration.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years (with the exemption itself available up to Tax Year 2030–31).

**51. Allowing expenditure on prospecting of critical minerals as deduction****Amendment proposed:**

Extend tax incentive for mining sector by making expenditure on prospecting/exploration of “critical minerals” eligible for deduction under the existing deferred deduction mechanism.

**Relevant provision amended:**

Income-tax Act, 2025 – Section 51 read with Schedule XII (Part A & Part B); amendment proposed to Schedule XII to expand mineral list. (Corresponding: Section 35E of the Income-tax Act, 1961 (amortisation of expenditure on prospecting/extracting/production of specified minerals), read with the relevant Schedule/list of specified minerals as applicable.)

**Earlier position:**

Deduction (on a deferred basis over 10 years from the year of commercial production) was available for eligible prospecting/development expenses only for minerals listed in Schedule XII (Part A & Part B), for:

- a. expenses incurred in the year of commercial production, and
- b. expenses incurred in any one or more of the 4 years immediately preceding the year of commercial production.

**New provision:**

Schedule XII will be expanded to include critical minerals, so that expenditure on prospecting/exploration of such critical minerals becomes eligible for deduction under Section 51 (same deferred amortisation framework).

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

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

**Amendment proposed:** Provide a long-term tax exemption for foreign companies on income arising in India from procuring data centre services from a specified (government-notified) data centre in India, to promote data centre investment and AI data centre ecosystem.

**Relevant provision amended:** Income-tax Act, 2025 – Section 11 read with Schedule IV (eligible income not included in total income for eligible non-residents/foreign companies, etc.) — amendment to add a new exemption entry and definitions.

**Earlier position:** Section 11 read with Schedule IV contained specified exempt incomes for certain non-residents/foreign companies, but did not specifically exempt income of a foreign company arising in India by way of procuring data centre services from a notified/approved specified data centre in India for a long-term horizon.

**New provision:**

Schedule IV will be amended to exempt a foreign company on any income accruing/arising in India or deemed to accrue/arise in India by way of procuring data centre services from a specified data centre, for a period up to the tax year ending 31 March 2047, subject to conditions including:

If the foreign company provides services to Indian users, it must be routed through an Indian reseller entity.

Also, key terms will be defined:

- a. “data centre”: dedicated secure space/location where computing/networking equipment is concentrated for collecting/storing/processing/distributing/accessing large data.
- b. “data centre services”: services using physical and IT infrastructure (land/buildings/power/cooling/security/IT infra incl. servers, storage, OS, security solutions, network, software platforms, equipment, and human resources in India).
- c. “specified data centre”: a data centre that (i) is set up under an approved scheme and notified by Central Government (MeitY), and (ii) is owned and operated by an Indian company.

**Effective date:** April 2026 — applicable for Tax Year 2026–27 and subsequent tax years (with exemption available up to the tax year ending 31 March 2047).

**53. Amendment of section 169 of the Income-tax Act, 2025 relating to providing effect to advance pricing agreements**

**Amendment proposed:** Expand the APA return-modification mechanism to allow not only the APA applicant, but also an associated enterprise (AE) whose income/tax gets correspondingly modified due to the APA, to file a return / modified return and claim consequential refund/adjustments.

**Relevant provision amended:** Income-tax Act, 2025 – Section 169 (as per your heading; amendment described with reference to existing Section 168(1) mechanism for modified return in APA cases). (Corresponding: Section 92CC (Advance Pricing Agreement) read with Section 92CD (effect to APA and modified return) of the Income-tax Act, 1961.)

**Earlier position:** The law allowed filing of a modified return only by the person who entered into the APA with the Board. There was no enabling provision for the associated enterprise (not being the APA signatory) to file/modify return and claim refund of additional taxes paid or taxes withheld, even though its income/tax liability may change correspondingly due to the APA.

**New provision:**

Where income is modified due to an APA entered into with any person, then:

- a. the APA signatory person shall, and
- b. any other person being an associated enterprise may, furnish a return or modified return (as applicable) in accordance with and limited to the APA, within 3 months from the end of the month in which the APA is entered into, for the tax years covered by the APA.

This applies where the APA is entered on or after 1 April 2026, for tax years beginning 1 April 2026 onwards.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

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

**Amendment proposed:** Expand the definition of “co-operative society” to explicitly include co-operatives registered under the Multi-State Co-operative Societies Act, 2002.

**Relevant provision amended:** Income-tax Act, 2025 – Section 2(32) (definition of “co-operative society”). (Corresponding: Section 2(19) of the Income-tax Act, 1961 (definition of “co-operative society”).)

**Earlier position:** “Co-operative society” covered societies registered under the Co-operative Societies Act, 1912 or any other State/UT law for registration of co-operative societies. It did not explicitly mention societies registered under the Multi-State Co-operative Societies Act, 2002.

**New provision:** The definition will be amended to include co-operative societies registered under the Multi-State Co-operative Societies Act, 2002 within “co-operative society” for purposes of the Income-tax Act, 2025.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**55. Widening scope of deduction under section 149 by including ancillary activities of cattle feed and cotton seeds**

**Amendment proposed:** Widen the scope of deduction for certain primary co-operative societies by including ancillary activities—specifically supplying cattle feed and cotton seeds—within the eligible activities for full profit deduction.

**Relevant provision amended:** Income-tax Act, 2025 – Section 149(2)(b) (deduction for specified primary co-operative societies supplying specified produce to specified buyers). (Corresponding: Section 80P(2)(a)(iii) of the Income-tax Act, 1961 (deduction for co-operative societies engaged in marketing of agricultural produce grown by its members, and allied coverage as applicable).)

**Earlier position:** Full deduction of profits and gains of business was available to a primary co-operative society engaged in supplying milk, oilseeds, fruits, or vegetables raised/grown by its members to:

- a. a federal co-operative society in the same business, or
- b. the Government / local authority, or
- c. a Government company / corporation engaged in the same business.

However, similar member-linked ancillary supply activities like cattle feed and cotton seeds were not explicitly covered under Section 149(2)(b).

**New provision:** Profits and gains from supplying cattle feed and cotton seeds (as ancillary activities undertaken by members of such primary co-operative societies) will be included within Section 149(2)(b), making such profits eligible for deduction (on the same lines as existing covered activities).

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

**56. Deductions in respect of dividends received and distributed by certain cooperative societies**

**Amendment proposed:**

- a. Extend dividend deduction benefit for co-operative societies into the new tax regime, and

- b. provide a time-bound deduction for notified federal co-operatives on dividends received from companies (subject to investment cut-off and onward distribution to members).

**Relevant provision amended:**

Income-tax Act, 2025 – Section 149(2)(d) (deduction for interest/dividend received from other co-operative societies). (Corresponding: Section 80P(2)(d) of the Income-tax Act, 1961 (interest/dividend from co-operative society) and related deduction provisions such as Section 80M (inter-corporate dividend deduction concept), where relevant.)

**Earlier position:**

- a. Deduction under Section 149(2)(d) for interest/dividend received from another co-operative society was available only in the old tax regime.
- b. Dividends received from a company were taxable in the hands of the co-operative society (no special deduction as described here).

**New provision:**

- a. New tax regime: Deduction will be allowed on dividends received by a co-operative society from other co-operative societies, to the extent such dividends are distributed to its members.
- b. Notified federal co-operatives: Deduction will be allowed for dividends received from companies for 3 years (up to Tax Year 2028–29) under both old and new regimes, subject to:
- deduction restricted to dividends arising from investments made up to 31.01.2026, and
  - such dividends must be further distributed to its members.

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years (with the company-dividend deduction for notified federal co-operatives available only till Tax Year 2028–29).

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

**Amendment proposed:** Expand the scope of immunity under Section 270AA so that immunity from penalty/prosecution can also be granted in cases where penalty is initiated for under-reporting of income in consequence of misreporting (currently excluded).

**Relevant provision amended:**

Income-tax Act, 1961 – Section 270AA (immunity from penalty/prosecution) with linked provisions Section 270A (penalty for under-reporting/misreporting) and prosecution provisions Sections 276C / 276CC.

**Earlier position:** Immunity under Section 270AA was available only for cases of under-reporting of income (i.e., not involving “misreporting”). Where under-reporting was due to misreporting, immunity could not be granted—even though the taxpayer is required to pay an additional income-tax equal to 100% of the tax on such income (in lieu of penalty), subject to the scheme.

**New provision:** Section 270AA will be amended to also allow immunity where penalty is initiated for under-reporting in consequence of misreporting, provided the existing procedural conditions are met (payment of tax + interest within demand notice time, no appeal, application within prescribed time, etc.).

**Effective date:** 1 March 2026 — applicable for AY 2026–27 or any earlier assessment years.

#### **58. Expanding the scope of immunity from penalty or prosecution under section 440 of the Act-**

**Amendment proposed:** Expand immunity under Income-tax Act, 2025 – Section 440 so immunity from penalty/prosecution is also available where income is under-reported due to misreporting, including cases involving unexplained income-type additions (Sections 102–106) that are being subsumed into misreporting—subject to payment of prescribed additional tax.

**Relevant provision amended:** Income-tax Act, 2025 – Section 440 (immunity procedure) read with Section 439 (penalty for under-reporting/misreporting), Sections 478/479 (prosecution), and referenced Sections 102–106 (unexplained credits/investments/assets etc.). (Corresponding: Income-tax Act, 1961 – Section 270AA (immunity), read with Section 270A (penalty), and prosecution provisions Sections 276C / 276CC; and unexplained income provisions Sections 68 to 69D.)

**Earlier position:** Immunity under Section 440 was available only for under-reporting of income (not for misreporting cases).

There was also a separate penalty for income determined by AO in the nature of Sections 102–106 (unexplained credits/investments/assets etc.) under Section 443, which is now proposed to be omitted/subsumed.

**New provision:** Section 440 will be amended to extend immunity where penalty is initiated for under-reporting in consequence of misreporting, provided the procedural conditions are met (tax + interest paid in time, no appeal, application within time, etc.), and subject to payment of additional tax in lieu of penalty:

For misreporting cases generally: additional income-tax of 100% of the tax payable on such income (as stated).

For income of the nature covered under Sections 102–106 (unexplained items) now treated as misreporting under Section 439(11): additional income-tax of 120% of the tax payable on such income (as stated).

**Effective date:** 1 April 2026 — applicable for Tax Year 2026–27 and subsequent tax years.

## **UNION BUDGET 2026 – CHANGES PROPOSED UNDER INDIRECT TAXES:**

### **B. CUSTOMS : Amendments in the Customs Act, 1962:**

#### **1. Amendment of Sub Section (2) of Section 1 of the Customs Act, 1962**

Sub-section (2) of section 1 of the Customs Act, 1962 is being amended to extend the jurisdiction of the said Act beyond the territorial waters of India, for the purpose of fishing and fishing related activities.

#### **2. Insertion of new clause of Section 2 of the Customs Act, 1962**

In section 2, a new clause is being inserted to define the expression 'Indian-flagged fishing vessel'.

#### **3. Amendment of Sub Section 6 of Section 28 of the Customs Act, 1962**

Sub-section (6) of section 28 is being amended so as to provide that the penalty paid under sub-section (5) of section 28, on determination under sub-section (6) thereof, shall be deemed to be a charge for non-payment of duty.

#### **4. Amendment of Sub-section (2) of Section 28J of the Customs Act, 1962**

Sub-section (2) of section 28J is being amended so as to provide that advance ruling under sub-section (1) of that section shall remain valid for a period of five years or till there is a change in law or facts on the basis of which the advance ruling has been pronounced, whichever is earlier.

The proviso to the said sub-section is also being substituted so as to provide that in respect of any advance ruling in force on the date on which the Finance Bill, 2026 receives the assent of the President, the Authority shall, upon a request by the applicant, extend the validity of the ruling for five years from the date of the ruling.

**5. Insertion of new section 56A of the Customs Act, 1962**

A new section 56A is being inserted to provide special provisions for fishing and fishing related activities by an Indian-flagged fishing vessel beyond territorial waters of India. It also provides that fish harvested beyond the territorial waters of India may be brought into India free of duty and to treat fish that has landed at foreign port as export of goods in such manner as may be provided by rules. It also provides to make regulations to provide for the form and manner of making an entry in respect of fish harvested by an Indian-flagged fishing vessel including its declaration, custody, examination, assessment of duty, clearance, transit or transshipment.

**6. Substitution of Section 67 of the Customs Act, 1962**

In the Customs Act, for section 67, the following section shall be substituted, namely: -

“67. The owner of any warehoused goods may remove them from one warehouse to another, subject to such conditions as may be prescribed.”. The proposed section seeks to do away with the requirement of prior permission of the proper officer under the said section for removal of warehoused goods from one custom bonded warehouse to another.

**7. Substitution of words in clause (b) of section 84 of the Customs Act, 1962**

In section 84 of the Customs Act, in clause (b), for the words “the examination”, the words “the custody, examination” shall be substituted. The amendment seeks to enable the Board to make provisions for the custody of goods imported or to be exported under the regulations framed under this section.

**C. Amendments to the First Schedule to Customs Tariff Act, 1975 Applied rates remain unchanged; tariff structure simplified by shifting rates from notifications into the Tariff.****Major categories affected:****Agriculture & Food**

- Frozen turkey meat: 30% → 5%
- Artemia & cysts: 5% → Nil
- Almonds (in shell): ₹42/kg → ₹35/kg
- Almonds (shelled): ₹120/kg → ₹100/kg
- Walnuts (in shell): 120% → 100%
- Seeds for sowing: 30% → 15%
- Makhana & roasted nuts: 150% → 30%
- Prawn/shrimp feed: 15% → 5%

**Minerals & Raw Materials**

- Natural graphite: 5% → 2.5%

- Natural sands: 5% → Nil
- Quartz/quartzite: 5% → 2.5%
- Strontium sulphate: 5% → Nil
- Coal, lignite, peat: 5% → 2.5%
- Petroleum crude: 5% → ₹1/tonne

#### **Critical Minerals & Metals**

- Multiple oxides, hydroxides, and salts reduced from 7.5% → Nil, including:
- Cobalt compounds
- Lithium oxide/hydroxide
- Vanadium oxides
- Germanium oxides
- Molybdenum oxides
- Antimony oxides
- Cadmium oxide
- Nickel chlorides/sulphates
- Strontium chloride

#### **Chemicals**

- Phosphoric acid: 7.5% → 5%
- Silicon dioxide: 7.5% → 2.5%
- Methyloxirane: 5% → 2.5%
- Ammonium nitrate: 10% → 5%
- Artificial graphite: 7.5% → 2.5%
- Gibberellic acid: 10% → 5%
- PVC polymers: 10% → 7.5%

#### **Industrial Inputs**

- Architectural drawings: 10% → Nil
- Cotton (long staple): 5% → Nil
- Ferro nickel: 2.5% → Nil
- Blister copper: 5% → Nil
- Lead & zinc scrap: 5% → Nil
- Cobalt powders: 5% → Nil
- Chemical reactors/tanks: 10% → 7.5%

**New Tariff Lines (Effective 01.05.2026)****Created for:**

- Krill
- Pecan nuts
- Cranberries & blueberries (fresh, frozen, dried, preserved)
- Shea nuts
- Fluorspar (acid grade)
- Hafnium ores
- Ammonium metavanadate
- Multiple chemicals (e.g., Artemisinin, Thymidine)
- Wet blue leather
- Rayon grade wood pulp
- Kites
- Tungsten products
- RO membrane parts
- Battery separators
- Refrigerated containers

**Purpose:** Better product identification, monitoring precursor chemicals, and tracking plant-based extracts. These changes will be effective from 01.05.2026, unless otherwise specified.

**D. Amendments to rules under Customs Act, 1962**

- a. Baggage Rules, 2016 is being superseded by the Baggage Rules, 2026 to rationalize the baggage provisions and addressing passenger related concerns at airports and resolution of interpretational issues; provide clarity in temporarily carriage of goods brought in or taken out to avoid unnecessary detention of goods, and restructure Transfer of Residence benefits for Indian residents and foreign professionals based on duration of stay. These changes shall come into effect from midnight of 02.02.2026.
- b. Deferred duty payment is being made monthly from the existing 15 days and a new class of 'eligible importers' is being created. This is being done by amending the existing Deferred Payment of Import Duty Rules, 2016.

**Other Proposals Involving Changes in Basic Customs Duty Rates in Notifications (Effective 02.02.2026)**

- Monazite: 2.5% → Nil
- Sodium antimonate (solar glass): 7.5% → Nil

- Potassium hydroxide: Nil → 7.5% (exemption removed)
- Nuclear power equipment & rods: 7.5% → Nil
- Components for microwave ovens: Nil

#### **Other changes proposed in the custom notifications:**

**EV & Energy Storage** BCD exemption for capital goods used in manufacturing Lithium-ion cells extended to Battery Energy Storage Systems (BESS).

**Defence Sector:** Raw materials for aircraft parts (PSUs under MoD) exempted, subject to:

IGCRS Rules

End use certificate (Joint Secretary rank)

**Aircraft Manufacturing** Components/parts including engines exempted, subject to IGCRS compliance.

#### **Nuclear Power Projects**

- Exemption expanded to all capacities
- Validity extended to 30.09.2035
- Contract registration allowed up to same date

#### **Health Sector**

- 17 new drugs added to List 3 (BCD exemption)
- 7 rare diseases added to List 22 (personal use imports)

#### **Critical Minerals Notification Cleanup**

- Notification 36/2024 to be rescinded (01.05.2026)
- 29 entries shifted to Tariff
- 22 redundant entries removed
- 3 entries merged into 45/2025

**Review Of Customs Duty Exemptions** Review of exemptions/concessional rates of BCD prescribed in notification No. 45/2025-Customs dated 24.10.2025:

- 124 entries reviewed
- 102 extended (with/without modification) till 31.03.2028
- 22 allowed to lapse

#### **Examples of Extended Entries**

- Frozen duck meat
- Planting materials

- Algal oil for aquatic feed
- Lactose for homeopathic medicines
- Sea-food processing inputs
- Gold ores
- Bunker fuels
- Electrical energy supplied from SEZ power plants
- Medical isotopes (Mo-99)
- Pharmaceutical reference standards
- ELISA kit inputs
- Hydrogen peroxide intermediates
- Solar cell backsheet inputs
- BLDC motor components
- Tags/labels for exporters
- Inputs for handicrafts, garments, footwear

**Social Welfare Surcharge (SWS)** Certain goods continue to remain **exempt from Social Welfare Surcharge (SWS)** under Notification No. 11/2018-Customs as follows:

- Natural graphite (2504), quartz and quartzite (2506), silicon dioxide (2811 22 00) and artificial graphite (3801)
- Goods falling under sub-heading 2106 90
- Spent catalyst and ash containing precious metals (heading 7112)

Social Welfare Surcharge will be leviable on all dutiable goods imported for personal use falling under heading 9804, with effect from 01.04.2026.

Parts of electronic toys imported for manufacture of electronic toys are exempted from SWS. Consequently, all goods under heading 9503 are exempt from levy of SWS.

**Agriculture Infrastructure and Development Cess (AIDC)** New pneumatic rubber tyres used on aircraft (tariff item 4011 30 00) will continue to attract 0.5% Agriculture Infrastructure and Development Cess (AIDC) under Sl. No. 13A of Notification No. 11/2021-Customs.

There is no change in the applicable AIDC rate, which remains 0.5% for such tyres other than those attracting NIL BCD.

**Amendment To Seventh Schedule to the Finance Act, 2001** The Seventh Schedule to the Finance Act, 2001 is being amended to revise the NCCD Schedule rates on specified tobacco products such as chewing tobacco, Jarda scented tobacco, and other tobacco products (including gutkha) with effect from 01.05.2026.

While the Schedule rates are increased from 25% to 60% for tariff items 2403 99 10, 2403 99 30, and 2403 99 90, the effective NCCD incidence remains unchanged.

**Exemption From Central Excise Duty on Value of Biogas/Compressed Biogas (CBG) Contained in Blended Compressed Natural Gas (CNG)**

With effect from 02.02.2026, the value of Biogas/Compressed Biogas (CBG) contained in blended Compressed Natural Gas (CNG) along with the GST paid thereon (CGST/SGST/UTGST/IGST, as applicable) will be excluded from the transaction value for computing central excise duty on blended CNG.

This is implemented by amending Notification No. 11/2017–Central Excise via Notification No. 02/2026 Central Excise dated 01.02.2026. Consequently, Notification No. 05/2023 Central Excise, which exempted excise duty only on the GST component of biogas/CBG, is rescinded from the same date.

**Deferment Of Date of Implementation of Higher Excise Duty on Sale of Unblended Diesel**

The levy of additional excise duty of ₹2 per litre on unblended diesel has been deferred until 31.03.2028. This deferment is affected through an amendment to Notification No. 11/2017 Central Excise by Notification No. 02/2026–Central Excise dated 01.02.2026.

**Amendments in the CGST Act, 2017**

- I. Amendment of Sub-section (3) of Section 15 Central Goods and Services Tax Act, 2017**  
Sub-section (3) of section 15 of the Central Goods and Services Tax Act, 2017 is being amended to do away with the requirement of linking the post-sale discount with an agreement and to refer to issuance of credit note under section 34 where the input tax credit is reversed by the recipient.
- II. Amendment of Section 34 Central Goods and Services Tax Act, 2017**  
Section 34 of the Central Goods and Services Tax Act, 2017 is being amended so as to include the reference of section 15 in the said section.
- III. Amendment of Sub Section (6) of Section 54 Central Goods and Services Tax Act, 2017**  
Sub-section (6) of Section 54 of the Central Goods and Services Tax Act, 2017 is being amended to extend the provisions of provisional refund to refunds arising out of inverted duty structure.
- IV. Amendment of Sub Section (14) of Section 54 Central Goods and Services Tax Act, 2017**  
Sub-section (14) of Section 54 of the Central Goods and Services Tax Act, 2017 is being amended to remove the threshold limit for sanction of refund claims in case of goods exported out of India with payment of tax.
- V. Insertion of Sub Section (1A) in Section 101A Central Goods and Services Tax Act, 2017**  
Sub-section (1A) is being inserted in Section 101A of the Central Goods and Services Tax Act, 2017 to provide that the Central Government may, pending the constitution of the National

Appellate Authority, by notification empower an existing Authority, for hearing appeals under section 101B of the CGST Act, 2017 and to provide that the provisions of sub-sections (2) to (13) shall not be applicable where a Tribunal has been so empowered under sub-section (1A). An explanation to sub - section (1A) is also being inserted to clarify that the existing Authority also includes a tribunal.

This will come into effect from **01.04.2026**.

#### **Amendments in the IGST Act, 2017**

#### **VI. Omission of Clause (b) of Sub-Section (8) of Section 13 of Integrated Goods and Services Tax Act, 2017**

Clause (b) of sub-section (8) of section 13 of the Integrated Goods and Services Tax Act, 2017 is being omitted so as to provide that the place of supply for "intermediary services" will be determined as per the default provision under section 13(2) of the IGST Act.

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**About Us:**

Vishnu Daya & Co LLP is a Professional Services Firm under which dedicated professionals have developed core competence in the field of audit, financial consulting services, financial advisory, risk management, direct and indirect taxation services to the clients. Each Partner is specialized in different service area. The services are structured differently in accordance with national laws, regulations, customary practice, and other factors. We continuously strive to improve these services to meet the growing expectations of our esteemed customers.

Started in the year 1994 as audit firm in Bangalore with an ambition to provide services in the area of accountancy and audit our legacy of vast experience and exposures to different types of industries made us rapidly adaptable to the changing needs of the time and technology by not only increasing our ranges of services but also by increasing quality of service.

With diversification, our professional practice is not only limited to Bangalore but has crossed over to the other parts of India with a motto to provide “One Stop Solutions” to all our clients.

For more information, please visit [www.vishnudaya.com](http://www.vishnudaya.com)

In case of any clarification please reach us:

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