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Chartered Accountants

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Budget 2026 Highlights

For Companies

- Employer can claim deduction for employee welfare contributions if paid by ITR due date.
- Share buybacks taxed as capital gains (Individuals ~30%, Companies 22%) from AY 2026-27.
- MAT rate reduced 15% → 14%; old MAT credit not allowed, existing credit usable under new regime.
- Foreign companies using Indian data centres exempt till 2047; safe harbour 15%.
- IFSC units get 20-year tax holiday; post-holiday tax 15%.
- MAT exclusion extended for cruise ship operations & electronics; 5-year exemption for notified service schemes.

For Individuals

- Interest on motor accident compensation fully tax-exempt, no TDS.
- Compensation for compulsory land acquisition tax-exempt from 1 April 2026.
- Disability pension exempt for armed forces/paramilitary invalided out due to service.
- Sovereign Gold Bonds: capital gains exempt only if original subscriber holds till maturity.

For Small Businesses / Taxpayers

- Single TDS declaration via depository for MF units, interest & dividends; quarterly reporting.
- ITR due dates: ITR1/ITR2 – 31 July, Non-audit businesses/trusts – 31 August.
- FAST-DS 2026: disclose foreign assets for immunity; up to ₹1 Cr → 60% tax, certain assets up to ₹5 Cr → ₹1 lakh.

General Taxpayer Relief

- Revised return filing extended to 12 months; belated return deadline unchanged.
- Updated return allowed after reassessment or loss reduction (+10% tax).
- Non-life insurance TDS allowed as deduction when paid later.
- Unexplained income tax rate reduced 60% → 30%.
- STT on derivatives increased slightly; TCS on foreign remittance reduced for education/medical.
- Penalties & prosecution simplified, procedural defaults decriminalised, fee-based penalties introduced.

For Non-Resident Individuals

- Lower/nil TDS certificates fully electronic; TAN not needed for property buyers.

For Charities / NPOs

- Tax-neutral mergers allowed; incidental business doesn't cancel registration; belated return filing restored.

GST Highlights

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- Export benefit restored for intermediary services; post-sale discounts allowed via credit note.
- 90% provisional refund extended; ₹1,000 export refund minimum removed.
- Interim appellate mechanism for advance rulings effective 1 April 2026.

New Income Tax Act, 2025

- Effective 1 April 2026; simpler, lower litigation, rational penalties, crypto reporting rules introduced.

** The amendments are applicable from 1st April 2026, unless otherwise stated*

Benefits for Company:

1. Employer can claim deduction of credit employee contribution by the employer

Previously, employee welfare contributions were deductible only if deposited by the statutory due date under labour laws. The amendment aligns the “due date” with the income-tax return filing date, allowing deduction if paid up to that date. This applies from 1 April 2026 (TY 2026-27 onwards)

2. Taxation of Share Buybacks

- Buyback proceeds taxable as **capital gains** (not dividend).
- Effective tax rate:
 - **Promoters (individuals): ~30%**
 - **Promoter companies: 22%**
- Applicable from **AY 2026-27**.

3. MAT Rationalisation

- MAT rate reduced **15% → 14%**.
- No new MAT credit under old regime.
- Existing MAT credit usable only under new regime (limited set-off).

4. International Tax & Incentives

Data Centre Services

- Exemption for foreign companies procuring services from **specified Indian data centres till 31 March 2047**.
- Safe harbour margin: **15%**.
- Applicable from **AY 2026-27**.

5. IFSC Incentives

- Tax holiday extended to **20 years out of 25**.
- Post-holiday tax rate: **15%**.
- Applies from **AY 2026-27**.

6. Non-Residents

- MAT exclusion extended to **cruise ship operations and electronics manufacturing support**.
- 5-year tax exemption for non-residents rendering services under notified schemes.

Benefits For Individual

1. Motor Accident Compensation – Tax Relief

Interest received on compensation awarded under the Motor Vehicles Act, 1988 is fully exempt and this applies to victims or their legal heirs.

No tax deduction at source on such interest income, without any monetary threshold

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

Schedule III grants capital gains exemption for transfer of agricultural land, and section 96 of the RFCTLARR Act exempts compensation from income tax.

Previously, the CBDT had earlier clarified that such compensation is tax-exempt even without an explicit IT Act provision. But now to remove ambiguity, **Schedule III is proposed to be amended to explicitly exempt income from compulsory land acquisition awards/agreements under the RFCTLARR Act (excluding section 46 cases) for acquisitions made on or after 1 April 2026**

3. Exemption for Disability Pension to armed force personnel

It is proposed to provide for exemption of disability pension, including both the service element and the disability element, only in cases where the individual has been invalidated out of Armed Forces service on account of a bodily disability attributable to, or aggravated by, such service, and not where the individual has retired on superannuation or otherwise. It is also proposed that this exemption will also be available to paramilitary personnel.

4. Sovereign Gold Bonds (SGBs)

- Capital gains exemption available **only to individuals subscribing at original issue and holding till maturity.**
- **Secondary market purchasers not eligible.**
- **Effective AY 2026-27 onwards.**

Benefits to small businessman

1. Enabling filing of declaration for no deduction to a depository

It is proposed to allow filing of the declaration by a taxpayer for no deduction of tax at source, to a depository, where income is of the nature:

- (i) income from units of a mutual fund
- (ii) interest income from securities and
- (iii) dividends.

This will address the present requirements of an investor to file separate declaration to different payers. The depositories shall in turn report such declarations to the person responsible for payment of such income.

It is also proposed that the person responsible for paying such income shall furnish the declaration received by it from the taxpayer to the Department on quarterly basis rather on monthly basis as at present.

The amendment will take effect from the 1st day of April, 2027.

2. Rationalising due dates for filing of return of Income

It is proposed to provide staggered time line for filing of tax returns due on the 31st of July. Individuals filing ITR 1 and ITR 2 shall continue to file tax returns by the 31st July **and for non-audit business cases or trusts, 31st August shall be the due date.**

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

Objective

One-time, time-bound voluntary disclosure of undisclosed foreign assets/income with immunity from penalty and prosecution under the Black Money Act.

Eligible Persons

- (i) Residents
- (ii) Non-residents / NORs who were residents when income was earned or asset acquired

Coverage

- (i) Undisclosed foreign assets (including financial interests)
- (ii) Undisclosed foreign income taxable in India

Monetary Limits & Payment

- (i) Up to ₹1 crore: 30% tax + 100% of tax (effective 60%)
- (ii) Specified assets up to ₹5 crore (NR-acquired / already-taxed income): ₹1 lakh flat fee

Time & Process

- (i) Electronic declaration within notified window
- (ii) Applies to income/assets up to 31 March 2026
- (iii) Payment within prescribed timelines; compliance certificate issued

Immunity & Impact

- (i) Full immunity from further tax, penalty, and prosecution
- (ii) Declared amounts excluded from total income; no reopening of completed assessments

Exclusions

- (1) Proceeds of crime / money-laundering cases
- (2) Cases with completed assessment under foreign asset law

Benefits to General

1. Extending the period of filing revised return

The timeline for Filing of revised return has been increased from existing 9 months **to 12 months from the end of the relevant tax year i.e. the due date for filing of Revised return is 31st March of the Tax year.**

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No change in due date of Belated return whose due date shall continue to be 31st December of the Tax year.

This is to assist those taxpayers who have filed belated returns and the same was needed to be revised.

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

Inadmissible expenses debited to the P&L of non-life insurance businesses are added back while computing taxable profits. While section 37 disallowances are allowed in the year of actual payment, no similar mechanism existed for TDS-related disallowances under section 35(b)(i) and (ii). **The amendment proposes inserting a new provision to allow such disallowed amounts as deduction in the year in which TDS is deducted and paid**

3. Scope of filing of updated return after issuance of notice of reassessment and in the case of reduction of losses

To provide additional measure for reducing litigation, it is proposed to allow the taxpayer to update the return even after reassessment proceedings have been initiated.

The updation is proposed to be enabled at an additional 10% tax rate over and above the rate applicable for relevant year.

It is further proposed to allow filing of updated return in cases where tax payer reduces the amount of loss filed in original return.

These amendments will take effect from the 1st day of April, 2026.

4. Rationalisation of TCS rates

Sl. 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 (coal, lignite or iron ore)	1%	2%
5	Remittance under the Liberalised Remittance Scheme (amount exceeding ₹10 lakh)	(a) 5% for education or medical treatment	(a) 2% for education or medical treatment
		(b) 20% for other purposes	(b) 20% for other purposes
6	Sale of overseas tour programme package (including travel, hotel, boarding or lodging etc.)	(a) 5% up to ₹10 lakh	2%
		(b) 20% above ₹10 lakh	

5. Securities Transaction Tax (STT)

Increased STT rates on derivatives:

- Options (sale): **0.10% → 0.15%**
- Options (exercise): **0.125% → 0.15%**
- Futures: **0.02% → 0.05%**

6. Penalty, Prosecution & Litigation Rationalisation

Integrated Assessment & Penalty

- Single consolidated order for assessment and penalty.
- Interest on penalty stayed during first appeal.

Immunity from Penalty & Prosecution

- Extended to **misreporting cases** on payment of:
 - **100% of tax**, or
 - **120%** for serious cases (unexplained credits, investments).
- Not available if prosecution already initiated.

Penalty to Fee Conversion

Daily fee (with cap) for:

- Audit failure
- TP documentation default
- Reporting failures (SFT/reportable accounts)

Prosecution Framework

- Decriminalisation of procedural defaults.
- Only **simple imprisonment**; max term reduced to **2 years** (6 months for minor cases).
- Punishment linked to **quantum of tax evaded**; fine-only for minor offences.

Special Income Taxation

- Tax on unexplained income reduced **60% → 30%**.
- Penalty aligned with misreporting framework (**200% of tax**).

Search & Assessment

- Block assessment for “other persons” limited to **relevant year only**.
- Search assessment time limit extended to **18 months**.

APA Returns

- AE also allowed to file/modify return due to APA impact.
- Time limit: **3 months from APA signing.**
- Applicable for APAs from **1 April 2026.**

7. New Income Tax Act, 2025 — Simplification & Overhaul

- Income Tax Act 2025 has been presented and will become effective since 1 April 2026 (FY 2026-27) as an alternative to the Income Tax Act 1961.
- The major goals include; easing the tax laws, lowering litigation, streamlining processes and updating compliance, easier forms, simplified provisions, and more straightforward definitions.
- Under the new Act, maximum jail terms are also minimized on some offences and penalties also made rational to minimize routine litigation and compliance load (e.g., shorter terms of imprisonment).

8. Crypto Reporting – Penalty Framework

The new Income Tax Act includes specific penalties for crypto reporting non-compliance:

Who is impacted?

- Cryptocurrency exchanges, reporting entities, wallet providers, and intermediaries that have to provide transaction statements according to Section 509 of the Act.

Penalty framework under the Budget proposals:

- (1) Penalties of 200 per day where no statement is furnished of crypto transactions.
- (2) Fine of 50,000 on providing false details and not rectifying them.

These are valid after 1 April 2026 and are an expressive warning against misreporting under the new Act.

9. TCS (Tax Collected at Source) Rationalisation on Foreign Remittances

- The Budget also liberalised the TCS on foreign remittances on the Liberalised Remittance Scheme (LRS).

Notable changes include:

- Reduced TCS (e.g. 2) on remittances spent on education and medical care overseas than in the past when it was high, that is, the cash-flow burden was decreased at the beginning.
- TCS on other remittances over prescribed amounts still exists, but is designed to better fit the real world uses (e.g., tours, investments).
- Student and family thresholds (e.g. larger exemption limits) make the burden and compliance more palatable

Benefits to Nonresident individual

1. Lower / Nil TDS Certificate – Electronic Mode & TAN requirements

The payees shall apply electronically for lower or nil TDS certificates and the certificate may be issued or rejected electronically by prescribed authority.

Also, where **seller of the immovable property is a non-resident**, the buyer was previously required to obtain TAN to deduct tax at source.

This requirement has been done away as now the Non-resident is not required to obtain TAN to deduct tax at source in respect of any consideration on transfer of any immovable property under section 393(2).

Benefits to Charitable Trusts / NPOs

- Tax-neutral merger allowed between NPOs with similar objects.
- Incidental commercial activity no longer leads to automatic cancellation.
- Certain funds exempted from mandatory NPO registration.
- Belated return filing restored from **AY 2026-27**.

1. Sector-Specific Measures

- Prospecting of **critical minerals** eligible for deferred deduction.
- Non-life insurers allowed deduction when delayed TDS is later paid.
- No TDS on interest paid to **co-operative banks**.
- Crypto reporting penalty introduced (₹200/day; ₹50,000 for inaccuracies).

GST – Key Highlights

Intermediary Services

- Section 13(8)(b) omitted.
- Place of supply = **location of recipient** → export benefit restored.

Post-Sale Discounts

- No need for pre-supply agreement.
- Discount allowed if credit note issued and ITC reversed.

Refunds

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- 90% provisional refund extended to **inverted duty structure**.
- ₹1,000 minimum refund threshold removed for exports.

Advance Rulings

- Interim appellate mechanism for conflicting AARs till NAAAR is formed.
- Effective **1 April 2026**.

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