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Budget for 2026-2027

The backdrop of the 2026 Budget was clearly spelt out by the Economic Survey, which made a break with the past by being presented two days before the Budget instead of on the previous day. The Survey makes it very clear that global instability, the breakup of the post-World War II global order and a move away from globalization will constitute major headwinds for the Indian economy.

The effects of such uncertainties have been spelt out in the Economic Survey, which states:

"The Indian rupee underperformed in 2025. India runs a trade deficit in goods; its net trade surplus in services and remittances is not enough to offset it. India depends on foreign capital flows to maintain a healthy balance of payments; when they run dry, rupee stability becomes a casualty."

On the positive side, however, it must be stated that according to Govt. statistics growth rates have been optimistic and inflation has been kept under control. The Government has continued to push ahead with reforms, including:

- The introduction of the new Direct Taxes Code.
- The introduction of the Labour Code.
- The introduction of the Securities Market Code (which will require the abolition of the SEBI Act and the Securities Control Regulation Act).
- The lowering of GST rates across the board on a large number of items.

These reforms have gone a long way in averting a far worse situation that could have resulted from global uncertainties.

The Economic Survey raises very pertinent questions about the outlook for 2026, spelling out three probable scenarios:

1. Scenario 1(40-45% Probability): Business as in 2025, but increasingly less secure and more fragile. Financial stress episodes, trade frictions, and geopolitical escalations create volatility and the government will be forced to cope with disorder rather than manage continuity.
2. Scenario 2 (40-45% Probability): A disorderly, multipolar breakdown. This is material and cannot be treated as just a tail risk. Under this scenario, trade becomes explicitly coercive, sanctions and countermeasures proliferate, supply chains are realigned

under political pressure and financial stress events are transmitted across borders with fewer buffers and weaker institutional shock absorbers.

3. Scenario 3 (10-20% Probability): A systemic shock cascade in which the macroeconomic consequences could be worse than those of the 2008 Global Financial Crisis.

The survey, therefore, starts on a bleak note. However, it goes into details of how India's macroeconomic situation has been well-managed to meet these threats and comes to an optimistic conclusion of maintaining and enhancing growth rates.

While this is the background, certain other relevant facts need to be highlighted in order to appreciate the 2026 Budget in its true perspective.

India’s GDP grow is increasingly consumption led and is not driven by private sector investment. The figures in the Economic Survey for private Sector and domestic household savings and investment for the year 2023-24 show:

- Gross Domestic Savings (Household + Corporate as % of GDP): 24%, as compared to China’s 43.4% (as per World Bank data of 2024).
- Total Private Sector Gross Fixed Capital Formation (as % of GDP): 19% as compared to China’s 40.6% (data for Gross Capital Formation 2024 as per World Bank)
- Total Gross Fixed Capital Formation (including Public Sector as % of GDP): 28%

2. The share of manufacturing in India’s GDP continues to languish. As published in the Economic Survey for the year 2026:

- Share of Agriculture in GDP: 15.2%
- Share of Manufacturing in GDP: 12.80%

This percentage has to climb substantially if India is to move into a pattern of sustained growth led by technology and manufacturing.

The sectoral deployment of bank credit constitutes a cause for worry. Year after year, data shows that personal loans constitute the largest sectoral deployment of of total bank credit, while loans to industry continue to languish.

Sectoral Deployment of Bank Credit:

Particulars	2023-24	2024-25	2025-26 (end Nov)
Personal Loan (Rs. in lakh crore)	53.47	59.72	64.86
%age of Total Bank Credit	32.54	32.73	33.22
Agriculture (Rs. in lakh crore)	20.71	22.87	24.17
%age of Total Bank Credit	12.60	12.54	12.38
Industry (Rs. in lakh crore)	36.82	39.86	42.19
%age of Total Bank Credit	22.41	21.85	21.61
Total Bank Credit (Rs. in lakh crore)	164.32	182.44	195.27

This fact has to be analysed together with two other phenomena of the Indian economy. Firstly, as the regulators are repeatedly saying the Indian stock market with retail investors pouring in money is overvalued. Secondly with personal loans form banks going up and deposit flow drying up the banks are faced with a highest ever credit-deposit ratio. These two facts coming together suggest a possibility of an asset bubble forming and also the possibility of personal debt traps.

India's share in world trade continues to be low. The last statistics available in the Economic Survey is from 2022, showing India's share at global export trade only of **1.8%.** Later statistics (not from the Economic Survey) indicate that the share has remained stagnant even in 2024 to 1.8%. Therefore, export becoming a driver of growth and playing a major role in the India growth story will be a difficult proposition.

Some more statistics will further highlight this issue:

India's exports (Year 2024): $820 million

China's exports (Year 2024): $3.58 trillion

To summarize, the economy-while safe from global shocks and with possibilities of continued growth—is still on shaky ground.

- Overseas FDI inflows are down.
- Reverse FDI outflows from the private sector are up.

- The rupee continues to slide.

For a young, healthy economy like India, the spiralling prices of gold and silver do not indicate a healthy outlook. Therefore, Budget 2026 has to face these challenges squarely. It must give incentives not only to exporters who have been hit hard by tariffs but also to the private sector, which should be encouraged to invest in India.

The Budget does not specifically address the issues raised by the Economic Survey. However, it continues to maintain the direction taken earlier by touching on several parts of the economy that need intervention. It addresses the need to revive MSMEs, improve urban planning and urban finance, and revitalize the bond market. It also targets export sectors in difficulty—such as leather, textiles, and marine exports—and deals with various aspects of agriculture, infrastructure, and other segments that require support. There is a major thrust towards encouraging investment in GCCs and boost Indian service sector. Therefore, the push toward accelerating the growth rate appears to continue. Whether the measures announced by the Finance Minister in the budget will be sufficient to sustain the pace of growth is a question only time can answer.

The tax proposals are now analysed in detail.

PART A: SUMMARY OF MAJOR CHANGES

1. MAT (Minimum Alternate Tax) as "Final Tax"

A paradigm shift has been introduced in the MAT regime. Effective April 1, 2026, MAT is no longer an "advance tax" with a credit mechanism but a Final Tax.

- Rate Reduction: The MAT rate has been reduced from 15% to 14% of book profits.
- Finality of Liability: Companies paying MAT can no longer accumulate *new* MAT credits. The tax paid is the final liability for that year.
- Treatment of Accumulated Credit:
    - No New Accrual: No fresh MAT credit will accrue from FY 2026-27 onwards.
    - Restricted Set-off: Existing accumulated MAT credits (up to March 31, 2026) can still be utilized, but with a cap. Companies transitioning to the new concessional tax regime (22% rate) can set off brought-forward MAT credit only up to 25% of their annual tax liability.
    - Lapsing: Credits remain usable only within the existing 15-year window; post that, they lapse.

Impact: This nudges companies to switch to the new tax regime (Sec 115BAA/115BAB) by de-incentivizing the retention of the old regime solely for MAT credit utilization.

2. 20-Year Tax Holiday for Data Centers & Cloud Services

To position India as a global digital hub, the Bill introduces a Tax Holiday until 2047 (approx. 20 years) for foreign cloud service providers.

- Eligibility: Available to foreign companies providing cloud services to global customers using data center infrastructure located in India.
- Condition: Services provided to *Indian* customers must be routed through an Indian reseller entity (which remains taxable).
- Novelty: A 20-year exemption period is unprecedented in recent tax history, signaling a strategic intent to capture the global backend infrastructure market without burdening foreign entities with Indian tax compliance on their global income.
- Transfer Pricing: A "Safe Harbour" of 15% on cost has been proposed where the data

center service provider in India is a related entity.

3. Overhaul of Buyback Taxation

The taxation of share buybacks has been shifted from the company to the shareholder, aligning it with the dividend taxation changes of previous years.

- Shareholder Level: Buyback proceeds are now taxed as Capital Gains in the hands of the shareholder.
    - LTCG (Held > 12 months): Taxed at 12.5%.
    - STCG (Held < 12 months): Taxed at 20%.
    - *Benefit:* The "Cost of Acquisition" is now deductible. (Previously, under the dividend model or company-tax model, the entire cost was often lost or treated as a capital loss with no gains to set off).
- Promoter Tax (Anti-Abuse): To prevent promoters from using buybacks for tax arbitrage (paying lower capital gains tax vs. higher dividend tax), an Additional Buyback Tax is levied on promoters:
    - Corporate Promoters: Effective tax rate of 22%.
    - Non-Corporate Promoters: Effective tax rate of 30%.

4. Penalty vs. Fee: The Shift and Doctrine of *Mens Rea*

The Bill continues the trend of "decriminalization" and "rationalization" by reclassifying certain penal defaults as "Fees" or simplifying penalty proceedings.

- The Shift: Penalties typically require the presence of *Mens Rea* (guilty mind/intent to evade). By converting a default into a "Fee" (automatic liability upon default, e.g., late filing fees), the department removes the need to prove "intent."
- Impact:
    - Certainty: Fees are absolute and automatic. This reduces litigation where taxpayers previously argued "reasonable cause" or "lack of intent."
    - Procedural Reform: Assessment and penalty proceedings are proposed to be integrated into a common order, reducing the multiplicity of proceedings and

harassment.

- Decriminalization: Several technical offences have been decriminalized or have had their imprisonment terms reduced to a maximum of 2 years, shifting the focus from prosecution to monetary compliance.

5. Allowing PROI (referred to as BRI) to Invest in India

("Persons Resident Outside India" -PROI)

The Bill liberalizes the Portfolio Investment Scheme (PIS) for individuals.

- Direct Access: Individual Persons Resident Outside India (PROI) are now permitted to invest *directly* in equity instruments of listed Indian companies (previously largely restricted to institutional routes or limited PIS).
- Increased Limits:
  - Individual Limit: Raised from 5% to 10% of a company's paid-up equity capital.
  - Aggregate Limit: Raised from 10% to 24% for all PROIs combined.
- Impact: This opens the floodgates for retail foreign capital and NRI wealth to enter the Indian equity market directly, reducing reliance on volatile FPI (Foreign Portfolio Investor) flows.

6. SEZ Companies in Domestic Market (DTA)

The Bill addresses the long-standing "SEZ vs. DTA" disparity.

- Context: Historically, SEZs selling to the Domestic Tariff Area (DTA) were treated as "imports," attracting full Customs Duty.
- Reform: The changes (aligned with the principles of the proposed DESH framework) allow SEZ units greater flexibility to sell in the domestic market.
- MAT Impact on SEZ: A critical specific change for SEZs is the MAT Credit restriction (Point 1). SEZ units, which historically paid MAT while enjoying Section 10AA holidays, have huge accumulated MAT credits. The new rule restricts the utilization of these credits to 25% of tax liability, significantly impacting the cash flows of SEZ units transitioning to the domestic tax regime.

PART B- DIRECT TAXES

1. Income Tax Act, 2025

New Income Tax Act, 2025 comes into force from April 1, 2026. It simplifies provisions, reduces litigation, and incorporates Budget changes.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 and subsequent years.

2. Personal Income Tax – Rates and Regimes

Analysis of Amendment: There are no changes proposed in the tax rates for the Assessment Year 2026-27 from the existing law. The rates provided in the relevant sections of the Act for the Assessment Year 2026-27 would be the same as those already enacted.

3. Ease of Living and Taxpayer Services

3.1 Rationalization of Employee Contribution Due Date (Section 29)

Section 36(1)(va) of the 1961 Act (corresponding to Section 29 of the 2025 Act) allows a deduction for employee contributions to welfare funds (PF/ESI) only if credited by the "due date." The definition of "due date" referred to the relevant welfare acts (e.g., 15th of the next month). This led to massive litigation where employers paid after the 15th but before filing their income tax return.

Amendment Analysis: The Finance Bill, 2026, overrides strict judicial interpretations for the future. It amends Section 29(1)(e) to define the "due date" as the **due date of filing the return of income** under Section 263(1). This is a significant relief for employers, ensuring that genuine delays in PF deposit (within the financial year cycle) do not result in permanent tax disallowance.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 and subsequent years.

Note:

This is a major relief for employers. Previously, a one-day delay in depositing employees' PF share meant a permanent disallowance of that expense. Now, as long as the amount is deposited before the Income Tax Return filing deadline (July 31st / August 31st / October 31st), the deduction is safe. However, interest and penalties under the PF Act for late payment will still apply.

3.2 Tax Exemption on Interest from Motor Accident Claims

Compensation awarded by the Motor Accidents Claims Tribunal (MACT) often includes an interest component to account for the delay in the judicial process. The taxation of this interest has been contentious.

Amendment Analysis: The Bill amends Schedule III (Exempt Incomes) to specifically exempt **interest income** awarded under the Motor Vehicles Act, 1988. This acknowledges the humanitarian aspect of such compensation.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 and subsequent years.

Note:

Recipients of MACT compensation often received notices for "High Value Transactions" due to this interest component. With this specific exemption, such notices should cease. Beneficiaries need not include this interest in their "Income from Other Sources."

3.3 Removal of TDS on MACT Interest (Section 393)

Consequent to the exemption of MACT interest, the requirement to deduct tax at source (TDS) on such payments becomes an unnecessary compliance burden.

Amendment Analysis: Section 393(4) is amended to explicitly state that **no tax shall be deducted** on interest payments awarded by MACT. This ensures that the victims receive the full amount awarded by the court without tax leakage.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Transaction Applicability:** Payments made on or after this date.

Note:

This eliminates the need for accident victims (who may not have other taxable income) to file an Income Tax Return solely to claim a refund of TDS deducted on their compensation interest.

3.4 Electronic Lower Deduction Certificates (Section 395)

Taxpayers with low taxable income often face high TDS deductions, necessitating a "Lower Deduction Certificate" (LDC). The existing process often required physical interface or disjointed online applications.

Amendment Analysis: The amendment to Section 395 mandates an electronic mechanism for filing and issuing LDCs. It empowers the prescribed authority to issue certificates based on digital verification of data.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Transaction Applicability:** Applications filed on or after this date.

Note:

Expect faster processing times for Form 13 applications. Assesse should ensure that the projection of income and tax liability in the application matches the data available in AIS/TIS, as the verification will likely be automated against these records.

3.5 TAN Relaxation for Property Buyers (Section 397)

When a resident buys property from a non-resident, they are required to deduct TDS under Section 195. Currently, this requires the buyer to obtain a Tax Deduction and Collection Account Number (TAN), a burdensome process for a one-time transaction.

Amendment Analysis: Section 397(1)(c) is amended to exempt resident individuals and HUFs from the requirement of obtaining a TAN for deducting tax on immovable property purchases from non-residents. This puts purchases from non-residents on par with purchases from

residents regarding procedural compliance.

Applicability:

- **Effective Date:** 1st October, 2026.
- **Transaction Applicability:** Transactions occurring on or after this date.

Note:

This removes a major compliance hurdle for individuals buying property from NRIs. Buyers can now likely use a challan-cum-statement (similar to Form 26QB) using just their PAN. However, the *rate* of TDS remains strictly as per Section 195 (rates in force), not the flat 1% applicable for resident sellers.

3.6 TDS on Manpower Supply (Section 402/393)

There has been perennial litigation on whether "manpower supply" constitutes "contract for work" (TDS ~2%) or "fees for technical services" (TDS 10%).

Amendment Analysis: The Bill amends the definition of "work" in Section 402(47) to explicitly include "supply of manpower." This statutory classification settles the debate. Payments for manpower supply will now definitively attract TDS under Section 393(1) at the lower rates applicable to contractors (1% for individuals/HUF, 2% for others).

Applicability:

- **Effective Date:** 1st April, 2026.
- **Transaction Applicability:** Payments credited or paid on or after this date.

Note:

This provides certainty and cash-flow relief to staffing companies. Payers should immediately update their ERP systems to deduct TDS under the 'Contractor' section (194C equivalent) for manpower supply invoices, rather than 'Professional Fees' (194J equivalent).

3.7 RFCTLARR Act Compensation (Schedule III)

Section 96 of the RFCTLARR Act, 2013, exempts land acquisition awards from income tax. However, the absence of a corresponding provision in the Income-tax Act led to Assessing Officers raising demands.

Amendment Analysis: The amendment aligns the two Acts by inserting a specific exemption in Schedule III of the Income-tax Act, 2025, for income arising from compulsory acquisition of land under the RFCTLARR Act.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Transaction Applicability:** Acquisitions/Awards on or after this date.

Note:

This statutory alignment will drastically reduce litigation. Taxpayers receiving such compensation should ensure it is flagged as 'Exempt Income' in their ITR to avoid defective return notices due to mismatch with AIS high-value transaction data.

3.8 Disability Pension for Armed Forces

The tax exemption on disability pension has been claimed by personnel retiring on superannuation who subsequently claimed disability.

Amendment Analysis: The Bill restricts the exemption to personnel **invalided out of service** due to bodily disability attributable to service. It explicitly excludes those retiring on superannuation. Simultaneously, it expands the benefit to **paramilitary personnel**.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 and subsequent years.

Note:

Retiring defence personnel must check their discharge certificate. If it says "retired on superannuation," the disability pension component is fully taxable. The exemption is strictly for those whose service was cut short ("invalided out") due to disability.

4: Corporate Taxation and Strategic Sectors

4.1 Buyback Taxation Overhaul

Previously, companies paid a Buyback Distribution Tax, and the income was exempt in the hands of the shareholder.

Amendment Analysis:

The Bill shifts the incidence of tax from the company to the shareholder.

1. **Shareholder:** The consideration received on buyback is treated as **Capital Gains**. The cost of acquisition of the shares is allowed as a deduction.
2. **Promoter Tax:** To prevent tax arbitrage, a new "Additional Income Tax" is levied on promoters.
    - **Corporate Promoters:** Effective tax rate 22%.
    - **Non-Corporate Promoters:** Effective tax rate 30%.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 and subsequent years.

Note:

This is a paradigm shift. Retail investors participating in buybacks will now have to pay capital gains tax (LTCG/STCG depending on holding period). They cannot treat the entire receipt as tax-free. Companies will stop paying the 23% buyback tax, which might allow them to offer slightly higher buyback prices.

4.2 Data Center and Cloud Services Incentives

India aims to become a global hub for data centers.

Amendment Analysis: Schedule IV is amended to provide a **Tax Holiday** until 31st March, 2047, for foreign companies. The exemption applies to income accruing in India from providing cloud services to global customers, provided they use a "specified data center" in India.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Sunset Clause:** Exemption available till 31st March, 2047.

Note:

This is a massive incentive for global tech giants (AWS, Azure, Google Cloud) to set up Indian

regions. Indian resellers partnering with these foreign entities need to ensure their contracts align with the "Indian reseller entity" condition to pass on benefits.

4.3 Rationalization of Minimum Alternate Tax (MAT)

MAT was originally designed to tax zero-tax paying companies. With the shift to the simplified New Tax Regime (Section 115BAA/115BAB) where MAT is not applicable, companies transitioning from the old regime faced a challenge: their accumulated MAT credit was effectively "lost."

Amendment Analysis:

The Bill introduces a transition mechanism to incentivize the shift to the New Tax Regime while providing partial relief on past credits.

1. **Rate Reduction:** The MAT rate is reduced from 15% to **14%** of Book Profit.
2. **Credit Utilization Cap:** Companies that opt for the New Tax Regime can now utilize their brought-forward MAT credit. However, to protect government cash flow, this utilization is capped. The credit can be set off only up to **25% of the tax liability** payable in that year under the new regime.
3. **No New MAT Credit:** For companies continuing in the Old Regime, MAT paid will be treated as a "final tax." No *new* MAT credit will be generated for the difference between MAT and normal tax.

Calculation Example:

If a company's tax liability under the New Regime is ₹100 Crores, and it has accumulated MAT credit of ₹50 Crores:

- **Previously:** Utilization was ₹0.
- **Proposed:** Utilization is capped at 25% of liability = ₹25 Crores.
- **Net Tax Payable:** ₹75 Crores (in cash). Balance ₹25 Crores credit is carried forward.[1]

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 and subsequent years.

Note:

This is a strategic "give and take." While the MAT rate reduction to 14% is minor, the ability to use MAT credit in the Section 115BAA regime is significant. CFOs should re-calculate the "breakeven point" for switching to the 22% corporate tax rate. Even though the credit utilization is slow (capped at 25% of liability), it prevents the complete write-off of the asset (MAT Credit Entitlement) in the books, supporting the Profit & Loss account.

4.4 IFSC Incentives

To bolster the GIFT City IFSC, tax holidays are enhanced.

Amendment Analysis: The deduction period for units in IFSC is extended to **20 consecutive years**. Post-holiday, business income is taxed at a concessional rate of **15%**.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 and subsequent years.

Note:

This makes GIFT City highly attractive for long-term projects like aircraft leasing, fintech hubs, and offshore banking units. The 20-year holiday is unprecedented and offers long-term tax certainty.

5: Rationalizing Return Filing and Compliance

5.1 Revised Due Dates (Section 263)

Currently, July 31st is the deadline for all non-audit cases.

Amendment Analysis:

The Bill splits the non-audit category:

- **31st July:** Remains for salaried individuals.
- **31st August:** New deadline for assesses with **Income from Business or Profession** (non-audit) and **Partners** of firms (non-audit).

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27 (for returns filed in 2026).

Note:

This staggering will reduce the load on the e-filing portal on July 31st. CAs should segregate their client list into "Salaried" and "Small Business" to manage workflows. Partners of firms now have a later deadline, aligning better with the firm's finalization.

5.2 Revised Return Timeline Extension

The deadline for revised returns (31st Dec) allowed little time for correction after a belated filing.

Amendment Analysis: The time limit for filing a Revised Return is extended to **12 months** from the end of the tax year (i.e., 31st March of the Assessment Year). A fee is introduced for revisions made after the initial 9-month window.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27.

Note:

Taxpayers now have until March 31st to revise returns. This is crucial for correcting AIS mismatches that often appear late. However, the fee for late revision need to be paid.

5.3 Updated Return Improvements

Updated Returns could not be filed once a reassessment notice was issued.

Amendment Analysis:

Taxpayers can now file an updated return **in response to a Section 148/280 notice**.

- **Cost:** Additional tax + **10%** surcharge.
- **Benefit:** Immunity from concealment penalty.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Retrospective (1961 Act):** 1st March, 2026.

Note:

This is a "Settlement Scheme" in disguise. If a client receives a reassessment notice, verify the escapement. If valid, filing this Updated Return with 10% extra tax is far cheaper than fighting the case and paying 100-200% penalties later.

6: Rationalizing Penalty and Prosecution

This chapter introduces a fundamental shift in the administration of tax defaults, moving from a discretionary "Penalty" system to a mandatory "Fee" system. This has profound legal implications regarding the doctrine of *Mens Rea* (Guilty Mind).

6.1 The Shift: Penalty vs. Fee and the Doctrine of Mens Rea

Under the 1961 Act, penalties (e.g., Section 271 for failure to audit) were often viewed as quasi-criminal in nature. It is an established law that penalty is not merely a consequence of a statutory default; the authority must act judicially. The concept of *Mens Rea* (guilty intention) or at least "conscious disregard" was relevant. If a taxpayer could prove "Reasonable Cause" (Section 273B), the penalty could be waived. The Assessing Officer (AO) had to issue a notice, hear the assessee, and establish that the default occurred without reasonable cause.

The Amendment (The New Law):

The Finance Bill, 2026, converts penalties for technical defaults into "Fees."

- **Nature of Fee:** A fee is compensatory and mandatory. It is charged automatically upon the occurrence of a default (e.g., delay in filing).
- **Impact on Mens Rea:** The concept of *Mens Rea* is **irrelevant** for levying a fee.
    - **No Discretion:** The AO does not need to "establish" the default or judge the "intention." The system automatically levies the fee based on the date.
    - **No Reasonable Cause:** The defense of "Reasonable Cause" (e.g., "my accountant was sick") is likely unavailable for a fee, unlike a penalty.

- **Reduced Litigation:** By removing the subjective element of "why the delay happened," the scope for litigation is eliminated.

Key Conversions:

1. **Failure to Get Accounts Audited (Section 446):** Previously a penalty of 0.5% of turnover. Now converted to a **Fee** (Section 428(c)) of **₹75,000** (for moderate delay) or **₹1,50,000** (for longer delay).
2. **Failure to Furnish International Transaction Report (Section 447):** Previously a penalty. Now a **Fee** of ₹50,000 or ₹1,00,000.
3. **Failure to Furnish SFT (Section 454):** Converted to a daily **Fee**.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27.

Note:

This is a "Silent Killer." Assessee can no longer rely to argue "reasonable cause" before the AO to waive penalties for late audit reports. The fee will be generated by the computer system (CPC) automatically, just like the late filing fee under Section 234F. Compliance deadlines are now hard stops, not soft targets.

6.2 Decriminalization of Offenses (Sections 473-485)

Strict prosecution provisions existed for technical defaults.

Amendment Analysis:

- **TDS Defaults:** Prosecution removed for lottery/gaming TDS defaults. For others, applies only if tax > ₹10 Lakhs.
- **Rigorous Imprisonment:** Replaced with "Simple Imprisonment" capped at 2 years.
- **Failure to Produce Accounts:** Fully decriminalized.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Scope:** Offenses committed/proceedings initiated on or after this date.

Note:

This significantly lowers the "terror" of tax laws. Directors and Principal Officers can breathe easier regarding technical lapses. However, habitual offenders with large defaults (> ₹10L) still face prosecution.

6.3 Penalty in Assessment Order (Section 274)

Separate penalty proceedings caused delays.

Amendment Analysis: Section 274 mandates that the penalty for under-reporting must be levied within the Assessment Order itself. Interest on penalty will not accrue until the first appellate authority confirms the order.

Applicability:

- **Effective Date:** 1st April, 2027 (Assessment Year 2027-28).

Note:

This speeds up finality. However, it puts pressure on the Assessing Officer to decide on penalty immediately, potentially leading to mechanical levy of penalties in the Assessment Order. The interest relief during appeal is a welcome cash-flow saver.

7: Other Direct Tax Provisions

7.1 TCS Rationalization (Section 394)

High TCS rates on overseas packages and LRS were unpopular.

Amendment Analysis:

- **Overseas Tour Packages:** Reduced to **2%**.
- **LRS Remittance (Education/Medical):** Reduced to **2%**.
- **Scrap/Minerals:** Increased to **2%**.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Transaction Applicability:** Collections made on or after this date.

Note:

The reduction to 2% for tours and LRS is a big relief for the middle class. It reduces the amount of funds locked up as tax credit. For scrap dealers, the increase to 2% doubles the TCS outgo, impacting working capital.

7.2 Search & Seizure Block Period (Section 295/296)

Third parties in search cases faced 6-year block assessments unfairly.

Amendment Analysis:

1. **Restricted Block:** For third parties, assessment limited only to relevant years.
2. **Limitation Date:** Anchored to the **initiation of the search**.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Scope:** Searches initiated on or after this date.

Note:

This protects innocent third parties whose data might be found during a raid on another person. They won't be dragged into a full 6-year scrutiny unless incriminating material exists for all those years.

7.3 Clarification on Jurisdiction (Section 148)

Courts quashed notices issued by Jurisdictional AOs (JAO) instead of Faceless units.

Amendment Analysis: Retrospective amendment clarifies that "Assessing Officer" includes the JAO. This validates notices issued by JAOs.

Applicability:

- **Effective Date:** Retrospective (1st April, 2021).

Note:

Taxpayers hoping to get their reassessment notices quashed solely on the "JAO vs. NaFAC" jurisdiction ground will now lose those arguments. The focus must shift to the merits of the case.

9: Cooperatives and Non-Profits

9.1 Cooperatives (Section 149)

Amendment Analysis:

1. **Inter-Cooperative Dividends:** Deduction allowed under New Tax Regime.
2. **Ancillary Activities:** Cattle feed/cotton seeds profit eligible for Sec 80P deduction.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27.

Note:

Cooperative societies should revisit their tax regime choice. The New Regime is now more attractive with the dividend deduction. Rural cooperatives dealing in cattle feed should claim the 80P deduction which was previously litigated.

9.2 Non-Profit Organisations (Mergers)

Amendment Analysis: A new Section 354A facilitates tax-neutral mergers of NPOs with similar objectives.

Applicability:

- **Effective Date:** 1st April, 2026.
- **Assessment Year:** 2026-27.

Note:

Smaller NGOs struggling with compliance costs can now merge with larger entities without triggering the "Exit Tax" (Accreted Income Tax), provided objectives align.

PART C: INDIRECT TAXES

8: Indirect Taxes (Customs, Excise, GST)

8.1 Customs: Extension to EEZ (Section 1)

Amendment Analysis: The Customs Act is extended to the Exclusive Economic Zone (EEZ) to regulate fishing. Fish caught in high seas/EEZ and landed in India are Exempt/Duty-Free. Transshipped fish are treated as Export.

Applicability:

- **Effective Date:** Date of Enactment of Finance Bill, 2026.

Note:

Deep-sea fishing operators need to maintain strict logs of where the catch was harvested. Landing catch at foreign ports now formally counts as export, entitling them to export benefits.

8.2 Customs Tariff Amendments

Rate Changes:

- Personal Imports (Heading 9804): Duty reduced from 20% to 10%.
- Umbrellas: Duty raised to 20%.
- Critical Minerals: Duties reduced to Nil or concessional rates.

Applicability:

- **Effective Date:** 1st April, 2026 (for Personal Imports).

Note:

Importing goods for personal use (via courier or baggage) becomes cheaper. E-commerce imports of personal items will attract lower duty.

8.3 Goods and Services Tax (GST)

1. Post-Sale Discounts (Section 15 CGST):

- **Amendment:** Requirement to have a pre-existing agreement for post-sale discounts is removed.

- **Impact:** Credit notes can reduce taxable value if recipient reverses ITC.

2. Place of Supply (Section 13 IGST):

- **Amendment:** "Intermediary Services" clause omitted.
- **Impact:** Intermediary services (BPOs) to foreign clients will qualify as **Exports** (POS = Recipient Location).

Applicability:

- **Effective Date:** Upon notification (Concurrent with State Legislatures).

Note:

Companies can now issue commercial credit notes for year-end target incentives and claim GST reduction without needing a prior contract.

Huge relief for BPOs/KPOs serving foreign clients. They can now claim refunds of accumulated ITC as their service is zero-rated export, ending years of litigation on "Intermediary" status.

UNION BUDGET AT A GLANCE
Summary of Government Receipts & Payments

(Rs. in Crores)

	2022-23 Actuals	2023-24 Actuals	2024-25 Actuals	2025-26 Budget Estimates	2025-26 Revised Estimates	2026-27 Budget Estimates
1. Revenue Receipts	23,83,206	27,29,036	30,36,619	34,20,409	33,42,323	35,33,150
2. Tax Revenue (Net to Centre)	20,97,786	23,27,251	25,00,039	28,37,409	26,74,661	28,66,922
3. Non-Tax Revenue	2,85,421	4,01,785	5,36,580	5,83,000	6,67,662	6,66,228
4. Capital Receipts [1]	18,09,951	17,14,411	16,16,249	16,44,936	16,22,519	18,14,165
5. Recovery of Loans	26,161	26,646	24,617	29,000	30,190	38,397
6. Other Receipts	46,035	33,122	17,202	47,000	33,837	80,000
7. Borrowings and Other Liabilities[2]	17,37,755	16,54,463	15,74,431	15,68,936	15,58,492	16,95,768
8. Total Receipts (1+4)	41,93,157	44,43,447	46,52,867	50,65,345	49,64,842	53,47,315
9. Total Expenditure (10+13)	41,93,157	44,43,447	46,52,867	50,65,345	49,64,842	53,47,315
10. On Revenue Account of which	34,53,132	34,94,252	36,00,914	39,44,255	38,69,087	41,25,494
11. Interest Payments	9,28,517	10,63,872	11,15,575	12,76,338	12,74,338	14,03,972
12. Grants in Aid for creation of capital assets	3,06,264	3,03,916	2,72,656	4,27,192	3,08,151	4,92,702
13. On Capital Account	7,40,025	9,49,195	10,51,953	11,21,090	10,95,755	12,21,821
Effective Capital Expenditure (12+13)	10,46,289	12,53,111	13,24,609	15,48,282	14,03,906	17,14,523
14. Revenue Deficit (10-1)	10,69,926	7,65,216	5,64,296	5,23,846	5,26,764	5,92,344
	-4.0	-2.6	-1.7	-1.5	-1.5	-1.5
15. Effective Revenue Deficit	7,63,662	4,61,300	5,64,296	96,654	2,18,613	99,642
(14-12)	-2.8	-1.6	-0.9	-0.3	-0.6	-0.3
16. Fiscal Deficit	17,37,755	16,54,643	15,74,431	15,68,936	15,58,492	16,95,768
[9-(1+5+6)]	-6.4	-5.6	-4.8	-4.4	-4.4	-4.3
17. Primary Deficit (16-11)	8,09,238	5,90,771	4,58,856	2,92,598	2,84,154	2,91,796
	-3.0	-2.0	-1.4	-0.8	-0.8	-0.7

N.B. Fiscal Deficit = Revenue Receipts + Capital Receipts except Borrowing – (Revenue Expenditure + Capital Expenditure)

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