ANALYSIS

UNION BUDGET 2026

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NEW INCOME-TAX ACT, 2025 (EFFECTIVE 1 APRIL 2026)

A major structural change announced is the new Income-tax Act, 2025, which is proposed to come into force from 1st April 2026.

o Important to understand:

- This is mainly a re-drafting and simplification of the law.
- It does not automatically mean new tax rates.
- The intention is to reduce ambiguity, reduce disputes and make compliance easier.
- **BUDGET HIGHLIGHTS**

The government demonstrates unwavering commitment to fiscal prudence whilst maintaining priority sector spending. Debt-to-GDP ratio declines from 56.1% (RE 2025-26) to 55.6% (BE 2026-27), on path to 50±1% by 2030-31.

Particulars	2025-26 Amount in lakh crores (Revised Estimates)	2026-27 Amount in lakh crores (Budgeted Estimates)
Total Revenue Receipts	33.4	35.3
Total Capital Receipts	16.2	18.1
Total Revenue Expenditure	38.7	41.3
Total Capital Expenditure	14	17.1

- The fiscal deficit reduction to 4.3% of GDP in BE 2026-27 fulfils the commitment to bring the deficit below 4.5% by 2025-26, made in FY 2021-22.

NO CHANGE IN INCOME TAX SLABS:-

New Regime	
Upto Rs. 4.00L	NIL
Rs. 4.00L to 8.00L	5%
Rs. 8.00 L to 12.00L	10%
Rs. 12.00L to 16.00L	15%
Rs. 16.00L to 20.00L	20%
Rs. 20.00L to 24.00L	25%
Above Rs. 24.00L	30%
Basic Exemption limit :- Rs. 4.00 Lakh	
Income tax Rebate limit :- Rs. 12.00 Lakh	
Standard Deduction (Salaried) :- Rs. 75,000	

Old Regime	
Upto Rs. 2.50L	NIL
Rs. 2.50L to 5.00L	5%
Rs. 5.00 L to 10.00L	20%
Above Rs. 10.00L	30%
Basic Exemption limit :- Rs. 2.50 Lakh	
Income tax Rebate limit :- Rs. 5.00 Lakh	
Standard Deduction (Salaried) :- Rs. 50,000	

Rationalising the due date to credit employee contribution by the employer to claim such contribution as deduction:-

- The government has proposed a major relief for employers by aligning the deadline for depositing employee contributions (like PF and ESI) with the deadline for filing Income Tax Returns (ITR).
- Previously, if an employer failed to deposit the employee's share of PF or ESI by the strict "due date" mentioned in the respective labour laws (usually the 15th of the following month), the deduction was permanently disallowed for tax purposes. Now, Employers can now claim a tax deduction for employee contributions as long as the amount is credited to the employee’s account on or before the due date for filing the ITR.

REDUCED TAX RATES ON UNEXPLAINED CASH OR CREDITS :-

Particular	Before	After
Tax rate on unexplained credits/investments/assets/expenditure/borrowings	60%	30%
Penalty under special provision (section 443)	10% of tax	Omitted (merged into general misreporting penalty)
Settlement option	Not available in same manner	Immunity by paying 120% of tax in these cases
Applicability	Till 31st march 2026	From FY 2026-27

TCS RATIONALIZATION:-

Category	Current Rate	Proposed Rate
Overseas Tour Packages	5% up to Rs. 10 Lakh 20% in excess of Rs. 10 lakhs	2% on whole. (No Threshold)
Education / Medical (self-funded or (other than financed by loan)	Nil up to Rs. 10 lakhs 5% in excess of Rs. 10 lakhs	2% on whole. (No Threshold)
Liquor of alcoholic nature, made for consumption by	1%	2%
Scrap materials	1%	2%
Minerals being lignite, coal and iron ore	1%	2%
Tendu leaves	5%	2%

AUTOMATED LOWER/NIL DEDUCTION CERTIFICATES:-

A rule-based automated system now enables small taxpayers to obtain lower or nil TDS deduction certificates without filing applications with assessing officers. This breakthrough eliminates discretionary manual approvals and provides faster processing with improved certainty.

Small businesses and professionals with lower tax liability can now obtain certificates instantly, improving cash flow without the earlier bureaucratic delays. The system uses taxpayer's return history, advance tax payments, and other data to automatically determine eligibility. This reform, referenced in Speech Paragraph 74, represents a significant step toward trust-based, technology-driven tax administration.

EXTENDED RETURN FILING WINDOWS:-

Category	Old due date	New due date
Business Returns (ITR 3/4)	31st July	31st August
Revised Return	31st December	31st March with nominal fees based on income after

UPDATED RETURN EVEN AFTER REASSESSMENT BEGINS

A revolutionary proposal allows filing of updated return even after reassessment proceedings start, by paying additional tax (proposed 10% over applicable rates).

Meaning: Even if notice comes, taxpayer can settle and close instead of long litigation.

FOREIGN ASSET DISCLOSURE SCHEME

The Foreign Assets of Small Taxpayers - Disclosure Scheme (FAST-DS) provides a one-time, six-month window for declaring overseas assets and income below specified thresholds. This voluntary disclosure opportunity addresses legacy non compliance and encourages clean-up of historical foreign asset reporting gaps.

1. Category A – Failed to Disclose

o Taxpayers who failed to disclose overseas income/assets in earlier years.

o Applicable to those who did not report foreign income or assets at all.

o Provides immunity from penalty and prosecution subject to conditions.

o Requires payment of prescribed tax/fee as per scheme rules.

o Limit of undisclosed income/assets proposed to be Rs. 1 crore.

o Tax will be payable at 30% of the fair market value of assets or undisclosed income.

2. Category B – Disclosed Income, Not Asset

o Taxpayers who disclosed overseas income and paid tax but did not declare the foreign asset itself.

o Covers cases where income was reported but Schedule FA (Foreign Assets) was incomplete.

o Offers relief from penalty for asset disclosure omission.

o Subject to payment of prescribed fee.

oAsset Value is proposed to be up to 5 crore rupees.

oImmunity from both penalty and prosecution will be provided on payment of Rs.1 lakh.

Key Benefits:-

1. One-time 6-month window for voluntary compliance.

2. Immunity from penalty and prosecution upon full disclosure.

3. Cleans up legacy non-compliance issues.

4. Reduces future litigation risk.

5. Encourages transparency in foreign asset holdings.

PENALTY RATIONALIZATION

Comprehensive reforms to the penalty and prosecution framework aim to reduce litigation, integrate proceedings, and provide proportionate punishment.

1. NO INTEREST DURING APPEAL:- Interest on penalty kept in abeyance during pendency before first appellate authority, providing significant relief to taxpayers.

2. INTEGRATED ASSESSMENT:- Penalty and assessment proceedings combined into single order, reducing multiplicity and expediting resolution.

3. MISREPORTING TAX:- The budget proposals state that if a taxpayer has misreported income, they can now seek immunity from prosecution and penalty, provided they voluntarily disclose it and pay the tax due along with an additional income tax equal to 100% of the tax amount. Previously immunity largely available for "under-reporting," it remained difficult to obtain immunity for "misreporting," which implies intent. This new framework creates a costly but clear exit route for tax evaders to settle their dues and avoid imprisonment.

CO-OPERATIVE SOCIETIES: ENHANCED DEDUCTIONS

Recognizing the unique role of co-operative societies in India's economic structure, the Budget introduces targeted deductions to prevent double taxation and encourage inter-co-operative transactions.

1.Inter Co-operative Dividend Deduction:-

Dividend received by a co-operative society from another co-operative society is now deductible under the new tax regime to the extent it is further distributed to members, eliminating double taxation.

2.National Federation Exemption:-

Three-year exemption for dividend income received by notified national co-operative federation on investments made until 31st January 2026, limited to dividends further distributed to members. This encourages capital formation and investment by co-operative federations whilst ensuring benefits reach grassroots members.

TAX RELIEF FOR ACCIDENT VICTIMS

Interest received on Motor Accident Claims Tribunal (MACT) awards by natural persons is now exempt from income tax, with corresponding TDS provisions rationalized. This humanitarian measure provides relief to accident victims and aligns tax treatment with the compensatory nature of MACT awards.

The exemption applies specifically to interest received by natural persons (individuals) on MACT awards. Corresponding amendments to TDS provisions ensure that deductors are not required to withhold tax on such interest payments, simplifying compliance for insurance companies and other payers.

This reform recognizes that MACT interest serves to compensate for delayed justice rather than representing investment income, and should therefore receive tax-neutral treatment.

IT SERVICES & SAFE HARBOUR REVOLUTION:-

Margin	15.50% (Single safe harbour margin for all IT services categories)
Turnover Threshold (in crores Rs.)	Rs. 2000 crores

Advance Pricing Agreements (APAs) for IT services will be concluded within 9 months through a fast-track unilateral process, providing unprecedented certainty to the sector.

ATTRACTING GLOBAL TALENT & INVESTMENT

- **GLOBAL EXPERT EXEMPTION**

5-year exemption on global income for non-resident experts under notified schemes, taxing only Indian-sourced income.

- **TOLL MANUFACTURING TAX HOLIDAY:-**

5-year exemption for non-residents providing capital goods to toll manufacturers in bonded zones.

- **MAT EXEMPTION:-**

All non-residents paying presumptive tax exempt from Minimum Alternate Tax.

- **CLOUD SERVICES:-**

Tax holiday till 2047 for foreign companies providing cloud services in India.

CORPORATE TAX REGIME SIMPLIFICATION

- MAT is now final tax with no future credit availability for domestic companies not opting concessional tax regime. The rate reduces from 15% to 14% (plus applicable surcharge and cess).
- Set-off of brought forward MAT credit (available as on 1st April 2026) permitted only under concessional tax regime, limited to 25% of tax liability, available for fifteen years from origination year.

BUYBACK TAX REFORM:-

- In Budget 2026, the government has revised the tax treatment on buyback proceeds. Now onwards, profits from share buybacks will be taxed as capital gains for all shareholders, aligning them with the tax treatment of other capital gains.
- However, to disincentivize misuse of tax arbitrage, promoters will pay an additional buyback tax. This will make effective tax 22% for corporate promoters. For non-corporate promoters the effective tax will be 30%.

STT RATE MODIFICATIONS:-

Instrument	Previous	New
Futures	0.02%	0.05%
Option Premium	0.10%	0.15%
Options Exercise	0.13%	0.15%

INDIRECT TAXES:-

- Complete basic customs duty exemption on 17 specified cancer drugs ensures these life-saving medications remain affordable for patients battling cancer. This builds on existing exemptions and expands coverage to newer therapeutic categories.
- Targeted customs duty exemptions and extensions support key sectors including seafood processing, leather, nuclear power, critical minerals, aviation, and consumer electronics. These measures boost domestic manufacturing and export competitiveness.

Sector	Measure
Seafood Processing	Duty-free limit: 1% → 3% FOB
Leather Exports	Export period: 6 → 12 months
Shoe Uppers	Duty-free inputs extended
Nuclear Power	Exemption extended till 2035
Critical Minerals	Capital goods exemption
Aviation/Defence	Parts/raw materials exemption
Microwave Ovens	Parts exemption for

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The entire value of biogas is excluded whilst calculating Central Excise duty on biogas-blended Compressed Natural Gas (CNG), incentivizing adoption of renewable biogas and supporting India's clean fuel transition. This exemption removes a barrier to biogas adoption in transportation fuel, aligning fiscal policy with environmental objectives. By excluding biogas value from the excise base, the government ensures blended CNG remains price-competitive with pure CNG, accelerating the transition to sustainable fuels.

CONCLUSION

Budget 2026–27 is a compliance-friendly budget. It aims to reduce litigation, reduce cash blockage, and make the system more technology driven. For genuine taxpayers and businesses, the PF/ESI relief, TCS reduction, due date extensions and penalty rationalisation are welcome changes. We advise clients to wait for the Finance Bill to be enacted and rules/notifications before taking major restructuring decisions.

For any clarification or impact analysis for your case, please contact our office.