INDIA UNION BUDGET 2026

AN OVERVIEW:
BDO INDIA PRESENTATION

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ECONOMIC INDICATORS & FUTURE OUTLOOK

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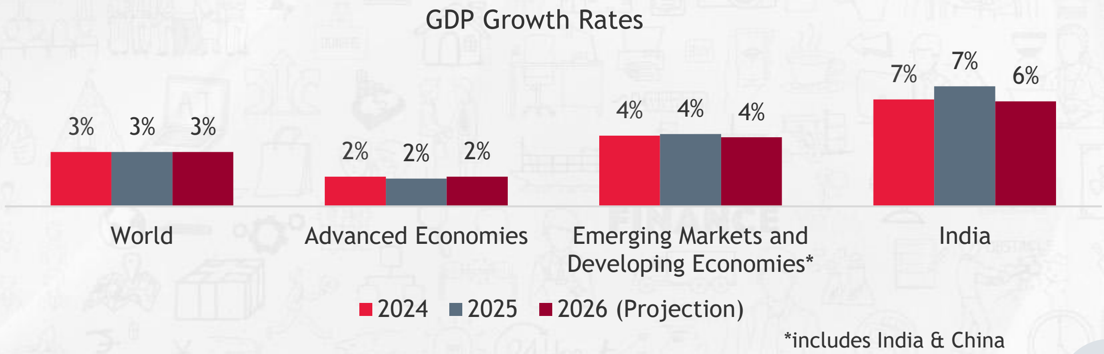
INDIAN ECONOMY VIS-À-VIS THE GLOBAL OUTLOOK

Key Highlights

Global Economy

- Global GDP growth moderated to 3.3% in 2025, below the pre-pandemic average of 3.5% (2011-2019), and is projected at 3.3% in 2026 and 3.2% in 2027.
- Global inflation stood at 4% in 2025 versus the historical average of 3.5% (2011-2019), but is gradually easing—expected to decline to 3.5% by 2026 and 3.4% by 2027.
- Global economic performance remains uneven amid structural challenges, political instability, geopolitical tensions disrupting supply chains, energy markets, trade routes, as well as renewed tariffs and trade restrictions, adding to heightened uncertainty.



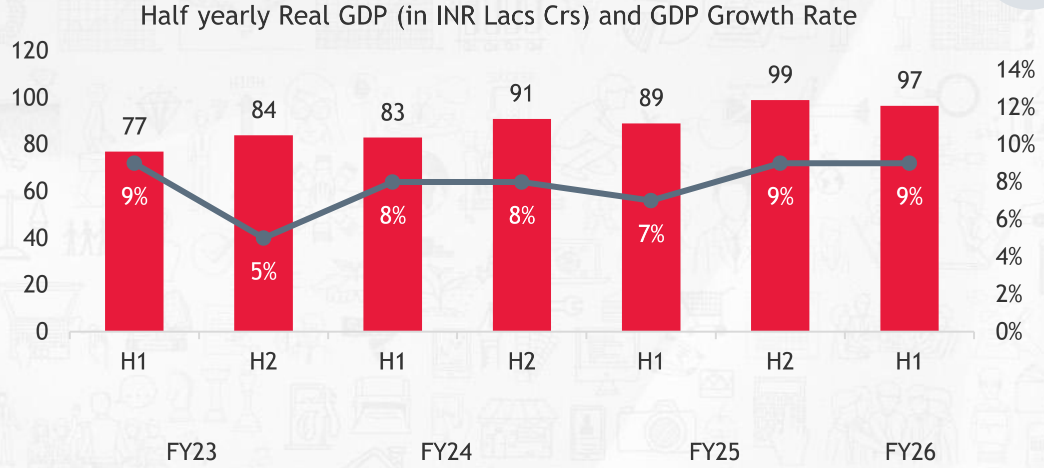
Indian Economy

Growth:

- India's real GDP grew 6.5% in FY25—marking a third consecutive year of 6%+ growth—driven by stable consumption and improving investment demand.
- IMF projects GDP growth to accelerate to ~7.3% in FY26.
- Retail inflation has eased significantly from 5.4% in FY24 and is expected to remain well below earlier projections in FY26.
- Private final consumption is projected to exceed 60% of GDP in FY26, reflecting robust domestic demand.

Outlook:

- Growth momentum expected to sustain, supported by a strong services sector, rising investments, global deals, and reviving rural demand—despite global trade risks.
- Food inflation may ease, but global uncertainties persist. Fiscal prudence and supportive policy measures remain key to achieving 6.3-6.8% growth in FY26, amid external headwinds including trade tensions and tariff risks.

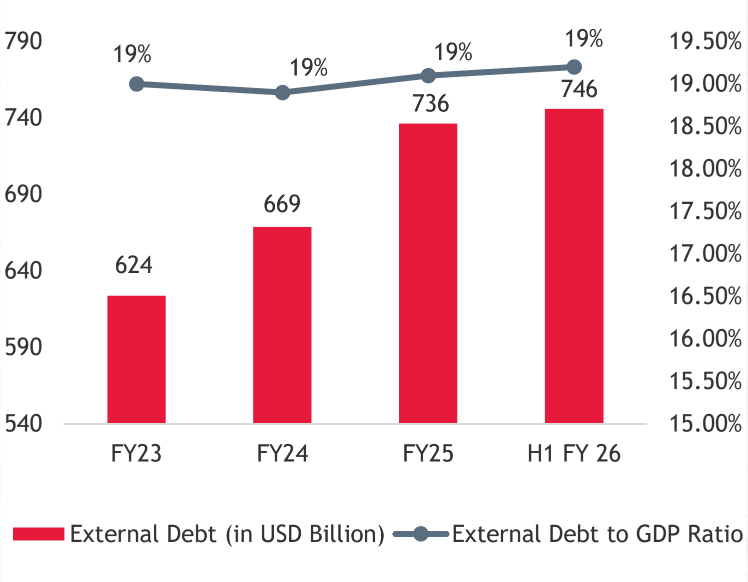


Source: World Economic Outlook - IMF (January 2026), Statistical Appendix for Economic Survey 2025-26, Press Note - Ministry of Statistics & Programme Implementation Government of India, PIB Ministry of Finance

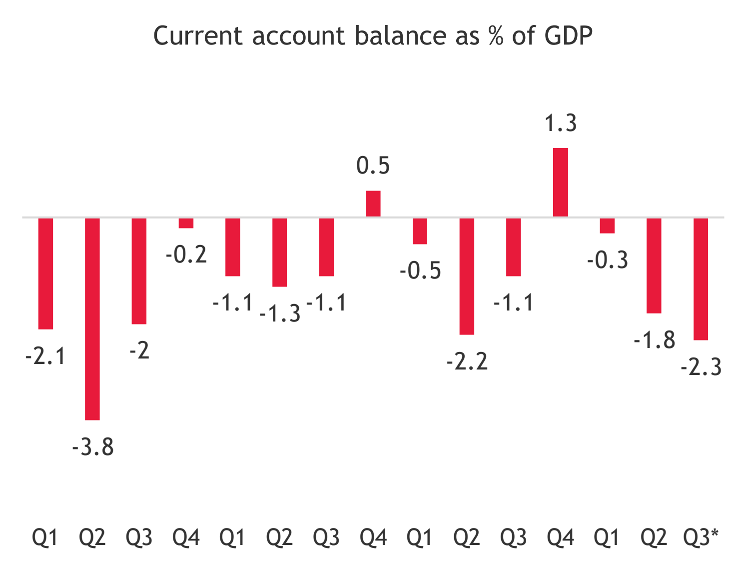
INDIAN ECONOMY: A SNAPSHOT

Key Highlights

External debt to GDP ratio to remain stable in the short term

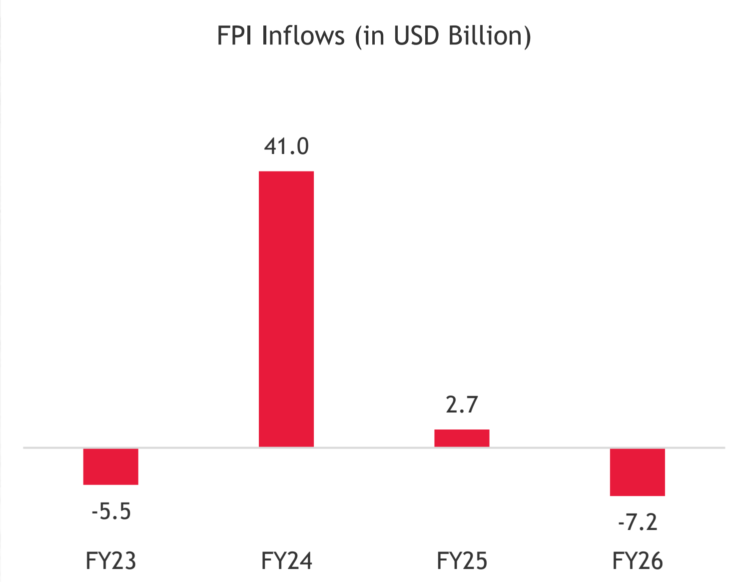


Current Account: Deficit pressures re-emerge in FY26 on account of merchandise trade deficit



*Projected

Mixed trends in FPI due to global uncertainty and profit booking, leading to capital outflows



*FPI – Foreign Portfolio Investments
**For FY26-data up to 30 January, 2026

Source: Economic Survey 2025-26, Statistical Appendix for Economic Survey 2025-26, ICRA, NSDL, PIB Ministry of Finance

SECTION:2

BUDGET PROPOSALS DIRECT TAXES

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PERSONAL TAXATION

Rates of Tax

Old Tax Regime (OTR)

Particulars	Individuals (Age < 60 years)	Resident Senior Citizens (>=60 but <80 years)	Resident Super Senior Citizens (80 years & above)
Income (INR)	**Tax Rates**		
Up to 250,000	Nil	Nil	Nil
250,001 to 300,000	5%	Nil	Nil
300,001 to 500,000	5%	5%	Nil
500,001 to 1,000,000	20%	20%	20%
Above 1,000,000	30%	30%	30%
Income (INR)	**Surcharge Rates (on Tax)**		
Up to 5,000,000	Nil		
5,000,001 to 10,000,000	10%		
10,000,001 to 20,000,000	15%		
20,000,001 to 50,000,000	25%		
Above 50,000,000	37%		
Income (INR)	**Health and Education Cess (on Tax plus Surcharge)**		
All	4%		

New Tax Regime (NTR)

For all individuals	
Income (INR)	**Tax Rates**
Up to 400,000	Nil
400,001 to 800,000	5%
800,001 to 1,200,000	10%
1,200,001 to 1,600,000	15%
1,600,001 to 2,000,000	20%
2,000,001 to 2,400,000	25%
Above 2,400,000	30%
Income (INR)	**Surcharge Rates (on Tax)**
Up to 5,000,000	Nil
5,000,001 to 10,000,000	10%
10,000,001 to 20,000,000	15%
Above 20,000,000	25%
Income (INR)	**Health and Education Cess (on Tax plus Surcharge)**
All	4%

A rebate under section 87A of IT Act,1961 (corresponding section 156 of IT Act) shall be available at INR 60,000 for income up to INR 1.2mn under NTR. Further, such rebate of INR 12,500 shall be available for income up to INR 0.5mn under OTR.

HOUSE PROPERTY

AMENDMENT IN COMPUTATION OF ANNUAL VALUE OF PROPERTY HELD AS STOCK-IN-TRADE

- It is proposed to amend the IT Act to allow the annual value of property held as stock-in-trade to be taken as Nil up to 2 years from the end of the Fiscal Year (FY) in which the certificate of completion of the construction of property is obtained from the competent authority.

INCLUSION OF PRIOR-PERIOD INTEREST UNDER AGGREGATE AMOUNT OF DEDUCTION IN RESPECT OF INTEREST ON BORROWED CAPITAL FOR SELF-OCCUPIED PROPERTY

- It is proposed to amend the IT Act to provide that the aggregate amount of deduction for interest on borrowed capital shall be inclusive of prior-period interest payable.

BUSINESS TAX

ALIGNING EMPLOYEE CONTRIBUTION CREDIT DEADLINES WITH TAX RETURN FILING DATES

- Currently, employers are not allowed deduction for employees' contribution towards any provident fund or superannuation fund or any fund set up under the provisions of the Employees' State Insurance Act, 1948 or any other fund for the welfare of such employees where there is a delay in deposit beyond the due dates mentioned in the respective statutes.
- To provide relief to taxpayers and to align the due date for employees' contribution with the due date for employers' contribution under the IT Act, it is proposed to amend the definition of due date under section 29(1)(e)(i) of the IT Act as the due date of filing of return of income under section 263(1) of the IT Act. Thus, employees' contribution deposited after the respective statute's due date but before the section 263(1) of the IT Act return filing deadline shall now be allowable.

NON-ALLOWABILITY OF INTEREST AS DEDUCTION AGAINST DIVIDEND INCOME

- The IT Act provides that any interest expenditure incurred on earning dividend income or income from units of a Mutual Fund covered under Schedule VII (Serial number 20 and 21) or income from units of the Unit Trust of India shall be allowed, subject to a ceiling of 20% of the gross dividend.
- It is proposed to amend the IT Act to provide that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds or income from units of a specified company of the Unit Trust of India.

ALLOWING DEDUCTION FOR EXPENDITURE ON PROSPECTING OF CRITICAL MINERALS

- The IT Act provides for tax deductibility of expenses incurred by an Indian company or resident taxpayers (other than companies) engaged in any operations relating to prospecting or extraction or production of minerals. The eligible minerals are mentioned in Part A and Part B of Schedule XII of IT Act.
- To incentivise the prospecting and exploration of critical minerals, it is proposed to include certain critical minerals in Schedule XII of the IT Act, thereby enabling expenditure incurred on the prospecting and exploration of critical minerals to qualify for deduction under the provisions of section 51 of the IT Act.

DEDUCTION FOR NON-LIFE INSURANCE BUSINESSES ON SUBSEQUENT WITHHOLDING TAX PAYMENT

- Part B of Schedule XIV of the IT Act governs the computation of profits and gains from insurance business other than life insurance.
- Any expenditure debited to profit and loss account but inadmissible under sections 28 to 54 of the IT Act is required to be added back while computing taxable profits.
- Consequently, expenditure disallowed under section 35(b)(i) and (ii) of the IT Act is added back while computing the taxable income of non-life insurance businesses.
- However, Schedule XIV of IT Act did not expressly provide for the allowance of such expenditure in a subsequent year upon compliance with withholding tax provisions, resulting in an ambiguity regarding the eventual deductibility of such amounts.
- To address this anomaly and to provide clarity, it is proposed to expressly provide under paragraph 4(3) of Schedule XIV of the IT Act that such expenditure shall be allowable in the FY of payment of withholding tax.
- This amendment will take effect from 1 April 2026.

BUSINESS TAX (CONTD..)

▶ RATIONALISATION OF MINIMUM ALTERNATE TAX (MAT)

- To encourage the adoption of concessional tax regime by domestic companies, it is proposed to allow carry forward and set off of MAT credit in concessional tax regime.
- Domestic companies moving to concessional tax regime for fiscal year 2026-27 and onwards will be allowed to use the balance of MAT credit to the extent of 25% of tax payable per fiscal year. The MAT credit can be carried forward until its credit balance is fully exhausted or for 15 years from the year in which the credit arose.
- For foreign companies, set-off is proposed to be allowed up to the difference between tax on total income and MAT.
- For companies not opting for the concessional tax regime, it is proposed to reduce the rate of tax under MAT from 15% to 14% (plus applicable surcharge and cess). The MAT paid would be treated as final tax, i.e., once the company makes payment of tax under MAT provisions, no MAT credit shall be allowed to be carried forward to subsequent fiscal years.

▶ EXTENSION OF BENEFITS OF TONNAGE TAX SCHEME (TTS) TO INLAND VESSELS

- TTS is an optional tax scheme for taxation of profit from the business of operating 'qualifying sea going ships' by Indian shipping company.
- To boost inland water transportation, the Finance Act 2025 extended the benefit of TTS to Inland vessels registered under the Inland Vessels Act, 2021 to promote inland water transportation.
- To bring clarity and alignment with the Inland Vessels Act, 2021, and rules thereunder, the following amendments are proposed:
  - Replace the term 'certificate' with 'valid certificate' under Section 227(4)(a) of the IT Act.
  - Replace the term 'certificate' with 'certificate of registration' under Section 227(9)(b) of the IT Act.
  - Include on-board or onshore activities of inland vessels besides passenger ships in the core activities of a tonnage company for the purpose of relevant shipping income.
  - Providing reference to guidelines related to minimum training requirements in case of inland vessels issued by the Inland Waterways Authority of India and notified by the Central Government. To this effect, the tonnage tax company is required to furnish a copy of the certificate issued by the Director-General of Shipping that such company has complied with the minimum training requirement as per the relevant guidelines under the Merchant Shipping Act, 1958 and the Inland Vessels Act, 2021.
  - The average of net tonnage shall be computed in the manner prescribed, in consultation with the Director-General of Shipping. Additionally, it is proposed to amend the provision by giving reference to the Inland Waterways Authority of India, in case of inland vessels.

CAPITAL GAINS

▶ BUY-BACK OF SHARES/ SECURITIES

- Under the IT Act, consideration received by a shareholder or holder of other specified securities on buy-back of shares/ securities is treated as dividend and the cost of acquisition of the shares extinguished on buy-back is recognised separately as a capital loss
- It is proposed to tax consideration received on buy-back of shares/ securities under the head 'Capital gains' and if the shareholder or holder of other specified securities is a promoter, the following additional tax shall be payable apart from regular tax on capital gains:

Nature of capital gain	Promoter is domestic company	Promoter is other than domestic company
Short term	2%	10%
Long term	9.5%	17.5%

- For listed companies, the meaning of 'promoter' shall be as defined in SEBI regulations. In other cases, it shall be as defined under section 2(69) of the Companies Act, 2013.
- The term 'specified securities' shall have the same meaning as assigned to it in Explanation 1 to section 68 of the Companies Act, 2013, which includes employee stock options or other securities as may be notified by the government from time to time.

▶ COMPENSATION ON COMPULSORY ACQUISITION OF ANY LAND UNDER THE RIGHT TO FAIR COMPENSATION AND TRANSPARENCY IN LAND ACQUISITION, REHABILITATION AND RESETTLEMENT ACT, 2013 (RFCTLARR ACT)

- Section 96 of the RFCTLARR Act provides that income tax shall not be levied on any award or agreement made (except those made under section 46) under the said Act to an individual and HUF.
- However, there is no specific provision of exemption in respect of such compensation in the IT Act. It is proposed to amend the IT Act to explicitly provide for such exemption to an individual and HUF in respect of compensation received under the RFCTLARR Act.

▶ SOVEREIGN GOLD BONDS

- The provisions of section 70(1)(x) of the IT Act provide exemption from capital gains tax to an individual in respect of income arising from the redemption of Sovereign Gold Bonds (SGBs) issued by the Reserve Bank of India (RBI) under the Sovereign Gold Bond Scheme, 2015.
- It is proposed to amend the IT Act to provide that the exemption will be available only when SGBs are subscribed by such individual at the time of original issue and are held continuously until redemption on maturity.

NON-RESIDENTS

EXEMPTION FROM MINIMUM ALTERNATE TAX (MAT) TO NON-RESIDENTS AVAILING PRESUMPTIVE TAXATION SCHEME

Certain non-residents deriving income from specified businesses and opting for presumptive taxation under section 61 of the IT Act are excluded from MAT. However, certain other non-resident businesses opting for presumptive taxation are not excluded. The Finance Bill proposes to extend this exclusion to all non-residents opting for presumptive taxation, including:

- Business of operation of cruise ships (subject to fulfilment of conditions)
- Business of providing services/technology in India for electronics manufacturing or production for a resident company

DEFINITION OF 'AUTHORISED PERSON' FOR PAYMENT TO A NON-RESIDENT INDIAN AGAINST TRANSFER OF ANY FOREIGN EXCHANGE ASSET NOT BEING A SHORT-TERM CAPITAL ASSET

- It is proposed to provide for the meaning of the term 'authorised person' in the IT Act to mean 'authorised person' as defined in section 2(c) of the Foreign Exchange Management Act, 1999.

EXEMPTION TO ELIGIBLE NON-RESIDENTS AND FOREIGN COMPANIES

To attract global business and investment, and promote manufacturing, data centres, and Artificial Intelligence (AI), the Finance Bill proposes to amend Schedule IV of the IT Act to provide exemption to the following non-residents and foreign companies.

Sr. No.	Eligible persons	Exempt income
(i)	Foreign company	▪ Income from providing capital goods, equipment, or tooling to a contract manufacturer in India (located in a custom bonded warehouse) producing electronic goods for the foreign company. ▪ Exemption available up to FY 2030-31
(ii)	Foreign company	▪ Income from procuring data centre services from a specified data centre, routed through an Indian reseller entity ▪ Exemption valid until FY 2046-47
(iii)	Non-resident individual	▪ Income in connection with any Scheme as may be notified by the Central Government and fulfils such other conditions. ▪ Exemption available for a period of 5 consecutive FYs immediately preceding the FY during which he visits India for the first time for rendering services

INTERNATIONAL FINANCIAL SERVICES CENTRE (IFSC)

EXTENSION OF PERIOD OF DEDUCTION FOR INTERNATIONAL FINANCIAL SERVICES CENTRE (IFSC) UNITS, OFFSHORE BANKING UNITS (OBUs) AND RATIONALISATION OF TAX RATE

- Section 147 of the IT Act provides for tax holiday for specified income earned by IFSC-based units for a period of 10 consecutive FYs out of 15 FYs and OBUs for a period of 10 consecutive FYs.
- The Finance Bill, 2026 (Finance Bill) proposes to extend the aforesaid tax holiday to 20 consecutive FYs for OBUs and 20 consecutive FYs out of 25 FYs for units in IFSC.
- Further, such tax holiday shall be available to a unit in IFSC or an OBU, if such unit is not formed by splitting up/reconstruction/reorganisation/transfer of a business.
- The Finance Bill proposes to tax the business income of such OBUs and units of IFSC @15% after the expiry of such beneficial period.

ALIGNMENT IN THE DEFINITION OF SPECIFIED FUND

- Section 11 of the IT Act, read with Schedule VI of the IT Act, grants exemptions to a ‘specified fund’ set up in the IFSC.
- To provide clarity, the Finance Bill proposes to amend Note 1(g) to said Schedule VI to align with the definition provided under section 10(4D) of the IT Act, 1961.

PROVIDING DEFINITION OF ‘COMMODITY DERIVATIVE’

- Section 66(33) of the IT Act uses the term ‘commodity derivative’ while defining ‘specified derivative transaction’. However, the term is not defined in the IT Act.
- The Finance Bill proposes to insert the definition of ‘commodity derivative’ in line with the definition under the IT Act, 1961.
- Section 66(4) of the IT Act is amended to provide that ‘commodities transaction tax’ and ‘commodity derivative’ shall have the same meaning as defined in Chapter VII of the Finance Act 2013.

RATIONALISATION OF DEFINITION OF ‘DIVIDEND’ FOR TREASURY CENTRES IN IFSC

- The definition of the term ‘dividend’ as per section 2(40)(v) of the IT Act excludes any advance or loan between 2 group entities, where:
  - one of the group entities is a ‘finance company’ or a ‘finance unit’;
  - the parent entity or principal entity of such group is listed on a stock exchange, excluding such countries or territories outside India as may be specified by the Board.
- To rationalise the said provision, the Finance Bill proposes to include any ‘other group entity’ located in a country or territory outside India within the scope of the exclusion.
- The definitions of ‘group entity’, ‘parent entity’ and ‘principal entity’ under the IT Act are not currently prescribed. Hence, it is proposed to clarify as under:
  - ‘group entity’ shall have the same meaning as assigned to the expression ‘group entities’ in regulation 2(1)(m) of the IFSCA (Payment Services) Regulations, 2024 made under the International Financial Services Centres Authority Act, 2019 (IFSCA Act, 2019)
  - ‘parent entity’ or ‘principal entity’ in relation to one or more other group entities shall be an entity of which other group entities are subsidiary and such entity:
    - exercises or controls more than 50% of the total voting power either at its own or together with one or more of its subsidiaries; or
    - controls the composition of the Board of Directors.

TRANSFER PRICING

RE-EVALUATION OF SAFE HARBOUR RULES

- Turnover threshold for Safe Harbour has been raised from INR 3bn to INR 20bn for Information Technology (IT) services.
- Uniform Safe Harbour margin of 15.50% proposed for the IT services category.
- Safe Harbour regime moves to a rule-based process.

ADVANCE PRICING AGREEMENTS (APAs)

- Proposal towards finalising unilateral APAs for IT services within 2 years.
- To enable associated enterprises (AEs) claim refund of any additional taxes paid or withheld, such AEs would now be allowed to furnish their modified tax return. This would be applicable for APAs entered on or after 1 April 2026, in respect of FY beginning from 1 April 2026 and subsequent years.

CLARIFYING TIME LIMIT FOR COMPLETION OF ASSESSMENT UNDER SECTION 144C

- Timelines provided in section 144C of the IT Act, 1961 operate for finalisation of assessments, notwithstanding the time limit provided in sections 153 and 153B of the IT Act, 1961. The clarification comes into retrospective effect from 1 April 2009 for section 153 and from 1 October 2009 for section 153B. A similar amendment is to be carried out in the IT Act.

MANNER OF COMPUTING 60 DAYS FOR PASSING THE TRANSFER PRICING ORDER

- It is clarified that the limitation date is included in computing the 60 days, aligning with legislative intent and removing interpretational disputes. The clarification comes into retrospective effect from 1 June 2007. A similar amendment is proposed to be carried out in the IT Act.

PENALTY CONVERTED INTO FEE

- Penalty for non-filing of transfer pricing audit report, converted into a graded fee based on the period of delay.

SECURITIES TRANSACTION TAX (STT) AND WITHHOLDING TAX

STT

- It is proposed to increase the rate of STT on sale of options in securities to 0.15% and sale of futures in securities to 0.05%.

WITHHOLDING TAX ON SUPPLY OF MANPOWER

- The Finance Bill proposes to amend the definition of 'work' to include the supply of manpower, thereby removing the ambiguity and bringing it under the category of payment to contractors.

EXEMPTIONS

- The Finance Bill proposes to remove the withholding tax in respect of interest on the compensation awarded by the Motor Accidents Claims Tribunal to an individual.
- It is proposed to provide exemption from withholding in respect of interest paid to any co-operative society engaged in the business of banking, in alignment with the provisions of the IT Act, 1961.

FILING OF DECLARATION TO DEPOSITORY FOR NO DEDUCTION

- Presently, the investors earning income from multiple units or securities are required to furnish the declarations for non-withholding of tax at source to each payer of income. Correspondingly, the taxpayer is required to submit a copy of such declaration on a monthly basis to the tax authorities.
- The Finance Bill proposes to permit investors to file such declarations directly with the depository. Correspondingly, with effect from 1 April 2027, the taxpayer will be required to submit the declaration upon receipt from the investor or the depository to the tax authorities on a quarterly basis.

OTHERS

- It is proposed to insert a new section 395(6) to the IT Act to enable the recipient of income/sum to file an online application for lower or nil withholding certificate before the prescribed tax authority. This is in addition to the existing mechanism of filing such applications before tax authorities.
- Effective 1 October 2026, it is proposed to ease compliance requirements for resident individuals and HUFs buying immovable property from non-resident sellers by allowing tax to be withheld without the need to obtain a tax deduction and collection account number.
- It is proposed to clarify that any guidelines issued to remove difficulties in giving effect to the provisions of withholding tax and tax collected at source (TCS) shall be binding on income tax authorities and on the person liable to withhold or collect income tax.

TCS PROVISIONS

The Finance Bill proposes to amend the rates in the following manner:

S No.	Nature of Receipt	Existing 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	Sale of overseas tour programme package	5%/20%	2%
6	Remittance under the Liberalised Remittance Scheme (LRS) exceeding INR 1mn for purpose of education and medical treatment	5%	2%

ADMINISTRATIVE REFORMS

RATIONALISING DUE DATES FOR FILING OF RETURN OF INCOME

- The Finance Bill has proposed to extend the due date of filing return of income from 31 July to 31 August for taxpayers having income from profits and gains from business and profession and whose accounts are not required to be audited under any law, including partner of a firm whose accounts are not audited.

EXTENSION OF TIME LIMIT FOR FILING REVISED RETURN

- Time limit for filing revised return under section 263(5) of the IT Act is proposed to be extended from 9 months to 12 months from the end of the relevant FY.
- Following fees have been proposed for filing of revised return beyond 9 months:

INCOME THRESHOLD	PROPOSED FEES
Up to INR 0.5mn	INR 1,000
Above INR 0.5mn	INR 5,000

SCOPE OF FILING UPDATED RETURN IN CASE OF REDUCTION OF LOSS

- Taxpayers are allowed to file an updated return only if it results in increase of income and requires payment of additional income tax.
- The Finance Bill proposes to allow taxpayers to file updated return even in case of reduction of loss vis-à-vis loss claimed in the original return filed within the due date.
- A similar amendment is proposed in the IT Act, 1961 with retrospective effect from 1 March 2026.

FILING OF UPDATED RETURN AFTER ISSUANCE OF NOTICE OF REASSESSMENT

- Earlier Section 263(6)(c)(v) of the IT Act prohibited filing of updated return in case of pending assessment or re-assessment or re-computation or revision of income of the taxpayer.
- The Finance Bill proposes to amend section 263 to allow a taxpayer to file an updated return in pursuance of a notice of reassessment under section 280 of the IT Act.
- The income-tax payable in such cases shall be increased by 10% of the aggregate of tax and interest payable on account of filing updated return. The income on which additional income-tax is paid shall not be subjected to penalty under the IT Act.
- A similar amendment is proposed in the IT Act, 1961 with retrospective effect from 1 March 2026.

RATIONALISATION OF ADMINISTRATIVE PROVISIONS

CLARIFICATION REGARDING JURISDICTION FOR ISSUE OF RE-ASSESSMENT NOTICE AND FOR CARRYING OUT PRE-ASSESSMENT PROCEDURE

- It is proposed to clarify the meaning of the term 'assessing officer' in the IT Act, 1961 to mean assessing officer other than the National Faceless Assessment Centre or any of its assessment units.
- This clarification shall come into force with retrospective effect from 1 April 2021.
- A similar amendment is also proposed in the IT Act.

CLARIFICATION REGARDING LAPSES IN QUOTING DOCUMENT IDENTIFICATION NUMBER (DIN) SHALL NOT INVALIDATE ASSESSMENTS

- It is proposed to clarify that any assessment shall not be invalid merely on account of any mistake, defect or omission relating to the quoting of a computer-generated DIN, provided the assessment order is referenced by such DIN in any manner in the IT Act, 1961.
- This clarification shall come into force with retrospective effect from 1 October 2019.
- A similar amendment is also proposed in the IT Act.

CENTRAL BOARD OF DIRECT TAXES (CBDT) TO MAKE RULES FOR QUOTING PERMANENT ACCOUNT NUMBER (PAN) IN DOCUMENTS NOT PERTAINING TO BUSINESS OR PROFESSION

- The IT Act provides for the powers of CBDT to make rules for quoting PAN in documents pertaining to business or profession.
- It is proposed to extend the powers of CBDT to make rules for quoting PAN in documents which do not relate to business or profession.

CLARIFYING REPEAL AND SAVINGS CLAUSE WHERE AMOUNT ALLOWED AS DEDUCTION EARLIER IS TO BE TREATED AS INCOME IN A LATER YEAR

- At present, the IT Act provides that where any deduction has been allowed or any amount has not been included in the total income under the IT Act, 1961, subject to fulfilment of certain conditions, then on violations of such conditions, such amount will be deemed to be income in the tax year in which violation takes place.
- It is proposed to amend the IT Act to provide that where any sum has been allowed as deduction or has not been included in the total income under the IT Act, 1961 then such sum will be deemed to be income under the IT Act even without violations of any conditions, if it was to be included in the total income under the provisions of the IT Act, had it not been repealed.

RATIONALISATION OF PROVIDENT FUND RELATED PROVISIONS

The Finance Bill proposes to simplify the provisions relating to taxability of employer Provident Fund (PF) contributions. As per the existing provisions, the employer PF contributions are taxable in the hands of employee if:

- Such employer contribution exceeds 12% of employee's salary; or
- Such employer contributions to PF along with National Pension Scheme and Superannuation Fund exceeds INR 0.75mn

The Finance Bill provides for rationalisation of the above provisions and indicates to remove the limit of 12%.

RATIONALISATION OF PROSECUTION AND PENALTY PROCEEDINGS

KEY PROPOSALS TOWARDS RATIONALISATION OF PROSECUTION PROCEEDINGS

The Finance Bill proposes to rationalise prosecution provisions and decriminalise offences by replacing rigorous imprisonment with simple imprisonment. Further, for some punishments, imposition of fine has been proposed in lieu of imprisonment.

- **Contravention of order made during search action:** Rigorous imprisonment up to 2 years and fine to be replaced with simple imprisonment and fine.
- **Failure to afford facility for inspection of books of accounts during search**: Rigorous imprisonment of up to 2 years and fine to be replaced with simple imprisonment of up to 6 months or fine or both
- **Removal, concealment, transfer or delivery of property to prevent tax recovery:** Rigorous imprisonment up to 2 years and fine to be replaced with simple imprisonment and fine.
- **Failure to pay withholding tax or TCS:** Rigorous imprisonment of 3 months to 7 years and fine proposed to be replaced with simple imprisonment of up to 2 years or fine or both where tax exceeds INR 5mn, up to 6 months or fine or both where tax exceeds INR 1mn and not more than INR 5mn, and only fine in any other case.
- **Willful attempt to evade tax, penalty or interest, failure to furnish return of income (including search cases), abetment of false return or any false statement in verification:**

  Rigorous imprisonment ranging from 3 months to 7 years along with fine proposed to be replaced with simple imprisonment of up to 2 years or fine or both where tax exceeds INR 5mn, up to 6 months or fine or both where tax exceeds INR 1mn and not more than INR 5mn, and only fine in any other case.
- **Failure to produce accounts and documents for search cases:** Rigorous imprisonment of one year and fine replaced with simple imprisonment of up to 6 months or fine or both.
- **Punishment for second and subsequent offences:** Rigorous imprisonment of 6 months to 7 years and fine proposed to be replaced with simple imprisonment of up to 6 months which may extend to 3 years and fine.
- Similar amendments have been proposed in the corresponding provisions of the IT Act, 1961

KEY PROPOSALS TOWARDS RATIONALISATION OF PENALTIES INTO FEES

- The existing framework levies penalties on delays such as failure to comply with audit and reporting requirements, furnishing of report for certain transactions and furnishing of statement of financial and reportable transactions.
- The following changes have been proposed:
  - **Fee for failure to furnish revised within stipulated timelines:** It is proposed to levy fee of INR 1,000 for total income up to INR 0.5mn and INR 5,000 in any other case
  - **Fee for failure to get accounts audited:** To be incorporated in the IT Act and a graded fee of INR 75,000 for delay of 1 month and INR 0.15mn for delay thereafter.
  - **Fee for failure to furnish report of accountant for international transaction or specified domestic transaction:** Ghereaftraded fee of INR 50,000 for a delay of up to 1 month and INR 0.1mn ter instead of the existing penalty of INR 0.1mn.
  - **Fee for failure to furnish statement of financial transactions:** The penalty for failing to furnish a statement within the period specified in a tax notice has been reduced to INR 200 per day, subject to a maximum of INR 0.1mn, compared to the existing penalty of INR 500 per day or INR 1,000 per day without any ceiling.

OTHER CHANGES IN PENAL PROCEEDINGS

INCREASE IN MAXIMUM AMOUNT OF PENALTY

Maximum penalty under section 466 of the IT Act for failure to comply with prescribed information requests by the tax authorities has been increased from INR 1,000 to INR 25,000.

EXPANDING THE SCOPE OF WAIVER OF PENALTY AND IMMUNITY FROM PROSECUTION

Under section 440 of the IT Act, taxpayers can obtain immunity from penalty or prosecution if they pay the tax and interest under the assessment order and do not file an appeal.

The Finance Bill proposes to extend this immunity to cases of under-reporting due to misreporting, subject to payment of additional tax of 100% of the tax on such income. For cases involving unexplained credits, investments, or expenditures, the additional tax will be 120% of the tax on the under-reported income.

A similar amendment is proposed in the IT Act, 1961.

PENALTY FOR NON-FURNISHING OF STATEMENT OR FURNISHING INACCURATE INFORMATION IN A STATEMENT ON TRANSACTION OF CRYPTO-ASSETS

The Finance Bill proposes penalty of INR 200 per day for failure to furnish the statement and a penalty of INR 50,000 for furnishing inaccurate particulars or failing to correct such inaccuracies or failing to comply with due diligence.

RATIONALISATION OF TAX RATE ON UNEXPLAINED INVESTMENT, EXPENDITURE, ASSET, ETC. AND PENALTY IN RESPECT THEREOF

- Section 195 of the IT Act provides for taxation of income referred to in sections 102 to 106, which includes unexplained credits, investments, assets, expenditures, and amounts borrowed or repaid through instruments like hundis. Tax is currently levied at 60%.
- The Finance Bill proposes to reduce such tax rate to 30%.
- Further, penalty of 10% of the tax payable under section 195, is currently levied under section 443 of the IT Act. This penalty is to be omitted and now be subsumed under section 439 of the IT Act and is proposed to be treated at par with penalty leviable for misreporting of income.

IMPOSITION OF PENALTY FOR UNDER-REPORTING OR MISREPORTING OF INCOME WITHIN ASSESSMENT ORDER

- The Finance Bill proposes that penalty proceedings under section 274 of the IT Act, 1961 (corresponding to section 471) cannot be initiated unless a formal show-cause notice is issued.
- Further, the Finance Bill also proposes that penalty proceedings should now be in-built along with draft assessment order, regular assessment order, and reassessment order, for orders passed on or after 1 April 2027 and no separate approval is required for imposition of penalty.

UNDISCLOSED FOREIGN INCOME AND ASSETS

FOREIGN ASSETS OF SMALL TAXPAYERS DISCLOSURE SCHEME, 2026 (FAST-DS 2026)

A time-bound Scheme, FAST-DS 2026, is proposed to be introduced by the Finance Bill for declaration of foreign assets and/or foreign-sourced income to facilitate voluntary disclosure by small taxpayers.

The Scheme shall prescribe the rules to compute the value of assets, income, taxes, penalties and the procedures for payment, order, etc. The following assets located outside India shall be covered:

- Undisclosed foreign asset or income up to INR 10mn. The aggregate amount payable shall be:
  - Tax @ 30% of the value of the undisclosed foreign asset and tax @ 30% of the undisclosed income; and
  - 100% of the tax calculated as above.
- Undisclosed foreign asset up to INR 50mn acquired from income accruing/arising outside India when the taxpayer was NR or such income was subjected to tax. A flat fee of INR 0.1mn shall be prescribed.
- Immunity shall be granted from the levy of any further tax or penalty and also from prosecution under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 (BMA).
- The above proposed scheme shall be effective from the date to be notified by the Central Government.

RELAXATION OF CONDITIONS FOR PROSECUTION UNDER BMA

The BMA contains provisions for non-disclosure of foreign assets or foreign-sourced income or non-filing of income-tax return. The Finance Bill proposes to provide relief in cases of minor/inadvertent non-disclosures.

It is proposed to remove the imprisonment provisions under BMA in cases where the aggregate value of foreign asset (other than immovable property) does not exceed INR 2mn.

The above amendments are proposed to be applicable with retrospective effect from 1 October 2024.

SECTION:3

BUDGET PROPOSALS
INDIRECT TAXES

GOODS AND SERVICES TAX (GST)

LEGISLATIVE CHANGES

SIMPLIFICATION OF CONDITIONS FOR POST-SALE DISCOUNTS [SECTION 15(3) AND SECTION 34(1) OF CGST ACT] – EFFECTIVE FROM A DATE NOTIFIED BY THE GOVERNMENT:

The requirement of linking post-sale discount Credit Note with a pre-existing agreement for such discounts is to be dispensed with. Such post-sale discounts (with GST benefit) can be given through Credit Note, subject to the buyer reversing the corresponding ITC.

REFUND RELATED MEASURES [SECTION 54(6) AND 54(14) OF CGST ACT] - EFFECTIVE FROM A DATE NOTIFIED BY THE GOVERNMENT:

- Grant of provisional refund of 90% to be available in cases of refund arising out of ‘Inverted duty structure’
- Minimum threshold of INR 1,000 for claiming refund to exclude goods exported with payment of IGST

OPERATIONALISATION OF NATIONAL APPELLATE AUTHORITY FOR ADVANCE RULING [SECTION 101A(1A) OF CGST ACT] – TO BE NOTIFIED FROM 1 APRIL 2026.

The Central Government is empowered to appoint any existing authority as an interim measure to hear appeals until the National Appellate Authority for Advance Ruling is constituted. Accordingly, other provisions for the constitution of the bench would not be applicable to such authority.

INTERMEDIARY SERVICES

CHANGE IN DETERMINATION OF ‘PLACE OF SUPPLY’ FOR ‘INTERMEDIARY SERVICES’ [SECTION 13(8) OF IGST ACT]:

- Specific provision to determine ‘place of supply’ for ‘intermediary services’ is proposed to be omitted
- ‘Intermediary services’ to attract default provision as per Section 13(2) of the IGST Act, i.e., location of service recipient. Accordingly, export of such services shall qualify for zero-rate benefits (subject to fulfilment of other conditions). However, this amendment would attract GST levy on ‘intermediary service’ imported into India, under Reverse charge.
- Since the effective date for omitting the place-of-supply provisions relating to intermediary services has not been specified, it appears that the change will take effect from the date the Finance Bill receives Presidential assent.

CUSTOMS

KEY LEGISLATIVE CHANGES

▶ JURISDICTION OF CUSTOMS ACT BEYOND TERRITORIAL WATERS

- The scope of the Customs Act, 1962 is proposed to be expanded beyond India's territorial waters, for the purpose of encompassing fishing and fishing-related activities carried out by Indian-flagged fishing vessels.
- Corresponding definition provided for 'Indian-flagged fishing vessel' to mean a vessel which is used or intended to be used for the purpose of fishing in the seas and entitled to fly the flag of India.

▶ SPECIAL PROVISIONS FOR FISHING ACTIVITIES BEYOND TERRITORIAL WATERS

- Fish harvested by an Indian-flagged fishing vessel beyond territorial waters of India may be brought into India free of duty.
- Fish harvested by such vessels and landed at a foreign port may be treated as export of goods, subject to rules and conditions to be prescribed.
- Administrative framework may be prescribed.

▶ PENALTY PAID IN CASES INVOLVING COLLUSION/ WILFUL MIS-STATEMENT/ SUPPRESSION OF FACTS

- Payment of duty on issuance of show cause notice, along with requisite interest and penalty, in cases involving collusion or wilful mis-statement or suppression of facts is deemed to be a conclusion of the matter.
- The provision is amended to state that the payment of penalty would be deemed to be a charge for non-payment of duty.

▶ VALIDITY OF ADVANCE RULING

- The validity of an advance ruling to be increased from 3 years to 5 years.
- In case of advance ruling in force on the date on which Finance Bill 2026 receives assent of the President, the validity of the ruling may be extended by the Authority for 5 years from the date of the ruling, on request by the respective taxpayer.

▶ MOVEMENT OF GOODS BETWEEN LICENSED WAREHOUSE

- Relaxation in requirement of prior permission from tax authorities for removal of warehoused goods from one custom bonded warehouse to another.

▶ REGULATORY POWERS FOR IMPORT / EXPORT BY POST / COURIER

- Board is empowered to make provisions for 'custody' of goods imported or to be exported by post or courier

For detailed analysis of all the customs duty rate changes, please click here

CUSTOMS

KEY PROCEDURAL CHANGES

DEFERRED PAYMENT OF IMPORT DUTY

- Deferred payment of import duty facility is proposed to be extended to a new category of importers, namely 'Manufacturer Importers', as approved by the Directorate of International Customs, CBIC.
- Benefit of deferred payment of import duty is proposed to be available up to 31 March 2028.
- Due date of making payment of import duty in case of benefit of deferred payment of import duty to be amended as follows:

No	Month	Bill of Entry Date	Existing Due Date	Revised Due Date *
1	April to February	1st day to 15th day of the month	16th of that month	1st of the following month
2	April to February	16th day till last day of the month	1st of the following month	1st of the following month
3	March	1st day to 15th day of the month	16th of March	31st March
4	March	16th day till last day of the month	31st of March	31st March

** The changes will come into effect from 1 March 2026.*

AUTOMATION OF CUSTOMS PROCESSES

- Auto Goods Registration to be enabled instead of the existing web-based goods registration, for the following categories of importers:
  - AEO T2/T3 certified entities
  - Importers approved as eligible manufacturer importers
  - Importers having a long-standing supply chain
  - Importers availing the Direct Port Delivery (DPD) facility
- Auto Out-of-Charge facility, which is currently available only to AEO T2/T3 certified entities, will be extended to all importers, subject to fulfilment of conditions.
- Online goods registration facility is proposed to be enabled for e-sealed cargo instead of existing manual procedure to approach customs officer for goods registration after arrival of cargo in the customs area.
- Auto Let Export Order (LEO) to be granted to exporters meeting certain conditions.
- System-based e-scheduling for cargo examination has been introduced, along with mandatory use of body-worn cameras during examination of import consignments.

CUSTOMS

BAGGAGE RULES AND REGULATIONS

GENERAL DUTY FREE ALLOWANCE

- Revised threshold for duty free import of baggage by passengers arriving in India other than by land:

Category of passengers	Earlier threshold	New threshold
Indian Resident	INR 50,000	INR 75,000
Tourist of Indian Origin	INR 50,000	INR 75,000
Foreigner residing in India with Valid Visa other than Tourist Visa	INR 50,000	INR 75,000
Tourist of Foreign Origin	INR 15,000	INR 25,000

JEWELLERY IMPORTS

- Revised threshold on duty free import of jewellery :

Category of passengers	Earlier threshold	New threshold
Female Passenger	40 grams with value cap of INR 1,00,000	40 grams
Other than Female Passenger	20 grams with value cap of INR 50,000	20 grams

- The current threshold has been implemented for Indian residents or tourists of Indian origin residing abroad for more than 1 year, whereas the earlier provisions were prescribed for passengers residing abroad for more than 1 year.

NEW PROVISIONS FOR RE-IMPORT AND TEMPORARY IMPORT

- Indian residents, tourists of Indian origin, and foreigners with non-tourist visas can bring back personal items (other than daily necessities) previously taken out of India without any payment of duty, subject to submission of declaration and obtaining customs approval at the time of departure.
- Foreign tourists may bring personal items (other than daily necessities) without payment of duty on submission of declaration and subject to re-export at departure.

AMENDMENT IN DUTY FREE ALLOWANCE LIMIT FOR TRANSFER OF RESIDENCE

- Threshold for duty free limit for transfer of residence from abroad to India is increased.
- Specific baggage allowance introduced for foreigners holding a valid visa (other than a tourist visa).

BAGGAGE REGULATIONS

- The Customs Baggage Declaration and Processing Regulations, 2026 introduced to supersede Passenger Baggage Levy of Fees Regulations 1996, Baggage Transit to Customs Stations Regulations 1997 & Customs Baggage Declaration Regulations 2013.
- These measures aim to simplify procedures, enhance passenger facilitation, and ensure transparency, enabling electronic advance declaration, and smooth clearance of passenger baggage.

MISCELLANEOUS

- Specific provisions for passengers arriving from Nepal/Bhutan/Myanmar provided in the earlier Baggage Rules 2016 are removed.
- Import of pets by passengers to be governed by rules notified by the relevant ministry, tax authorities, or central government authority.
- No duty exemption is granted to the passengers arriving from land apart from used personal effects.
- Passengers aged 18 years and above, other than crew members, are now permitted to import one new laptop, including notepads, free of duty. This allowance is separate from and in addition to the general duty-free baggage allowance.
- There has been no change in thresholds allowances for cigarettes, alcoholic liquor, wines and cigars.

Note: The Baggage Rules 2026 will come into effect from 2 February 2026.

SECTION:4

ABBREVIATIONS

ABBREVIATIONS

Particulars	Abbreviation
Advance Pricing Agreement	APA
Associated Enterprise	AE
Authorised Economic Operator	AEO
Automated Intelligence	AI
Billion	bn
Central Board of Taxes	CBDT
Central Board of Indirect Taxes and Customs	CBIC
Direct Port Delivery	DPD
Document Identification Number	DIN
Goods and Services Tax	GST
Gross Domestic Product	GDP
Hindu Undivided Family	HUF
Fiscal Year	FY
Finance Bill, 2026	Finance Bill
Foreign Portfolio Investment	FPI

Particulars	Abbreviation
Foreign Assets of Small Taxpayers Disclosure Scheme, 2026	FAST-DS 2026
The Income -tax Act, 2025	IT Act
The Income -tax Act, 1961	IT Act, 1961
Information Technology	IT
Indian National Rupee	INR
Input Tax Credit	ITC
Integrated Goods and Services Tax	IGST
International Financial Service Centre	IFSC
International Monetary Fund	IMF
Let Export Order	LEO
Liberalised Remittance Scheme	LRS
Million	mn
Minimum Alternate Tax	MAT
Old Tax Regime	OTR

Particulars	Abbreviation
Offshore Banking Units	OBUs
Permanent Account Number	PAN
Press Information Bureau	PIB
Provident Fund	PF
Reserve Bank of India	RBI
The Right to Faircompensation And Transparency In Land Acquisition, Rehabilitation Andresettlement Act, 2013	RFCTLAR ACT
Securities Transaction Tax	STT
Tax Collected at Source	TCS
Tax Deducted at Source	TDS
Tonnage Taxation Scheme	TTS
Securities Exchange Board of India	SEBI
Sovereign Gold Bonds	SGB

SECTION:5

ABOUT BDO

ABOUT BDO GLOBAL

REVENUE

Member Firms

US$11 bn ^ +4%

€10 bn ^ +2%

Including Alliance Firms

US$16 bn ^ +7%

€15 bn ^ +5%

870
Offices Worldwide

169
Countries & Territories

+94,900
People
^ +3%

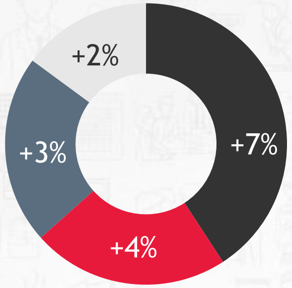
GROWTH BY REGION

+3%
ASIAPACIFIC

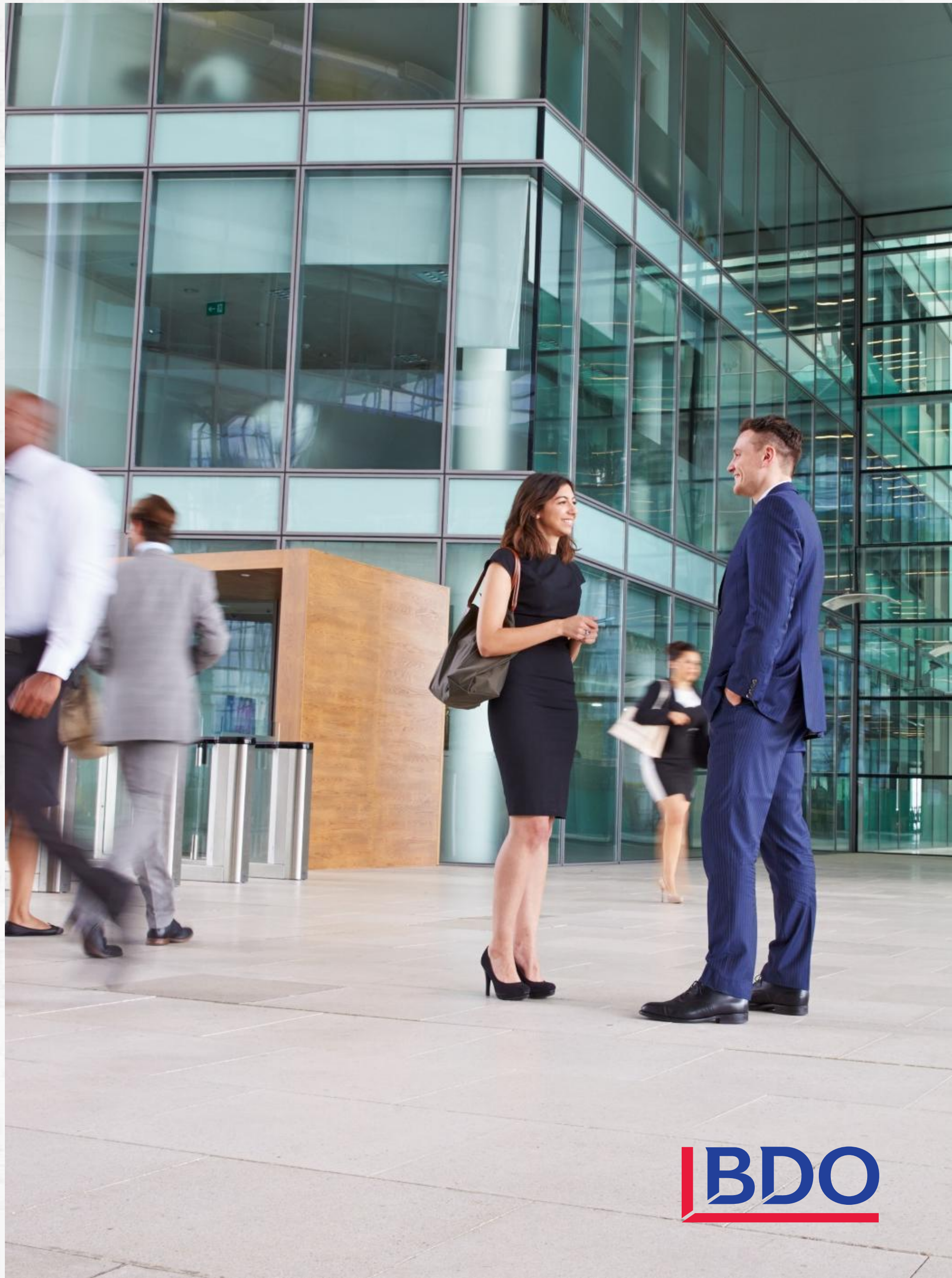
+0.4%
AMERICAS

+7%
EMEA

GROWTH BY SERVICE LINE



Data 1 October 2024 to 30 September 2025.



SECTION 05

BDO INDIA

11000+ STAFF*

14 CITIES

20 OFFICES

350+ PARTNERS DIRECTORS

ACTUARIAL SERVICES
EXECUTIVE SEARCH
TAX & REGULATORY SERVICES
ASSURANCE
DEAL ADVISORY SERVICES
BUSINESS ADVISORY SERVICES
RESEARCH AND INSIGHTS
MANAGED SERVICES
INDIRECT TAX
DIGITAL

*Includes employees from BDO RISE and BDO EDGE

With a comprehensive suite of services, we enable our clients to stay future-ready through our astute and sustainable advice. Our solutions are driven by innovation and backed by technology prowess, ensuring relevance and adaptability in today's evolving business landscape.

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MILIND KOTHARI
Chairman & Group CEO

YOGESH SHARMA
Group Managing Director

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