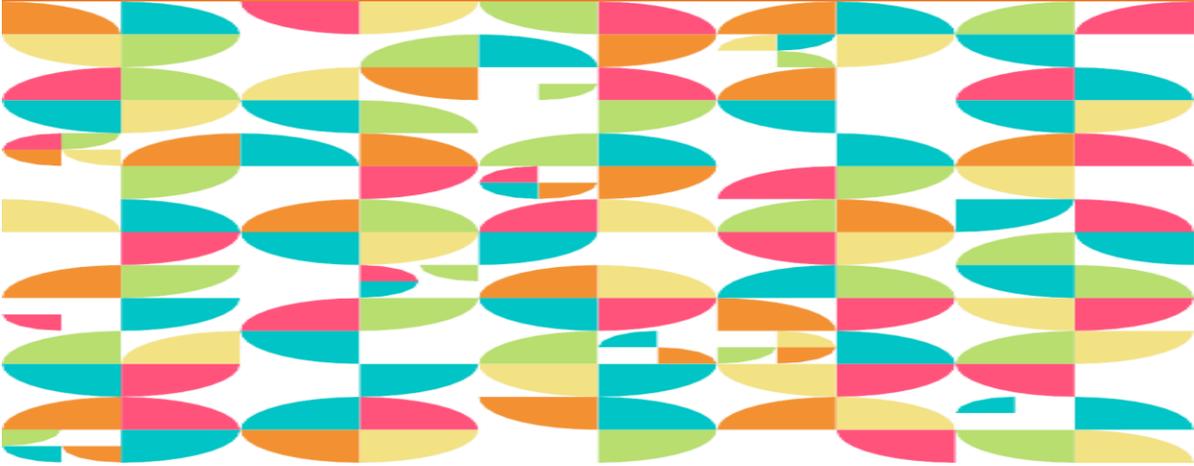


Corporate Update

**SPECIAL EDITION
ON**



FOREWORD



Dear Reader,

We enclose herewith our analysis of the major Direct and Indirect tax proposals introduced by the Finance Minister, Government of India, on 1st February 2026 in the Budget for 2026-27.

These proposals will require approval by the Indian Parliament and, thereafter, the assent of the President of India, to become effective.

Recently, the Government has also notified draft Income-tax Rules for public comments under the new Income-tax Act, 2025 which will be coming into force with effect from 1st April 2026.

C.S. Mathur
Partner



BUDGET EDITION 2026

The Finance Minister of India presented the Finance Bill, 2026 on February 1, 2026. The income tax proposals as made in the Finance Bill pertain to the Income Tax Act, 1961 ("IT Act 1961") as well as the (new) Income Tax Act, 2025 ("IT Act 2025"). The indirect tax amendments pertain to GST and Customs law.

Our analysis of the major proposals as made in the Finance Bill are given hereunder:

Income Tax

Tax Rates

Tax rates for residents

There is no change in the tax rates applicable to Corporates. Also, no changes have been made in the tax rates applicable to individuals.

Tax rates for non-residents

There is no change in the tax rates applicable to non-residents.

International Taxation

Tax holiday to foreign companies on any income arising in India by way of procuring data centre services from a specified data centre

In order to promote investment in Data Centre in India, it is proposed to provide tax exemption to a foreign company, to be notified by the Central Government, till tax year ending on March 31, 2047, in respect of income accruing or arising in India or deemed to accrue or arise in India by way of procuring data centre services from a specified data centre set up under an approved scheme and is notified by the Ministry of Electronics and Information Technology, subject to the following conditions:

1. The foreign company does not own or operate physical infrastructure or any resources of the specified data centre;
2. Data centre is owned and operated by an Indian company;
3. All sales by the foreign company to users located in India are made through a reseller entity being an Indian company.

Further, the international transactions of provision of data centre services between the eligible assessee and its associated enterprises are proposed to be included in the Safe Harbour regime with a margin of 15%.

For the above purpose, “data centre”, “data centre services” and “specified data centre” have been defined.

The above amendments shall be applicable from April 01, 2026.

Exemption to a foreign company on income arising on account of providing capital goods, equipment or tooling to a contract manufacturer for production of electronic goods

In order to promote electronic manufacturing in India, it is proposed to provide an exemption to a foreign company on the income arising on account of providing capital goods, equipment or tooling to a contract manufacturing company in India till tax year 2030-31, if the following conditions are satisfied:

1. The contract manufacturer is located in a customs bonded area;
2. The contract manufacturer produces electronic goods on behalf of the foreign company for a consideration;
3. The foreign company provides capital goods, equipment or tooling to the contract manufacturer for use in electronic manufacturing in India. However, ownership of such capital funds, equipment or tooling remains with the foreign company.

The above amendment shall be effective from April 01, 2026.

Exemption to a non-resident individual on income for rendering services in India under a notified scheme

It is proposed to provide an exemption to an individual in respect of any income accruing or arising outside India from rendering services in India under a scheme to be notified by the Central Government.

The exemption shall be available for a period of 5 consecutive tax years commencing from the tax year during which he visits India for the first time for rendering services in connection with such scheme.

The above exemption is subject to the following conditions:

1. The income to be claimed as exempt is not deemed to accrue or arise in India.

2. The individual should be a non-resident for a period of 5 consecutive tax years immediately preceding the tax year during which he visits India for the first time for rendering services under a notified scheme in India.
3. The other conditions to be prescribed are fulfilled.

The exemption could be availed by an individual who becomes a resident due to performance of services in India under the notified scheme and due to his residential status, any income accruing or arising outside India becomes taxable in India.

The above amendments shall be applicable from April 01, 2026.

Transfer Pricing

Option to file modified return pursuant to Advance Pricing Agreement available to Associated Enterprise

Under the existing provisions of section 169 of the IT Act 2025, an assessee who has entered into an Advance Pricing Agreement (“APA”) with the CBDT is required to file Modified Return in accordance with and limited to the APA. However, there is no provision to allow the Associated Enterprise (“AE”), whose income and tax liability is correspondingly modified consequent to the APA, to file the Modified tax return.

It is proposed to allow an option to the AE to furnish a return or a modified return in respect of the tax years covered by the APA within 3 months from the end of the month in which the APA was entered into.

The above amendment shall be effective from April 1, 2026.

Manner of computation of time limit for passing order by Transfer Pricing Officer

Under the provisions of Section 92CA of the IT Act, 1961, Transfer Pricing Officer (“TPO”) is required to pass his order at any time 60 days before the expiry of the time period for passing the assessment order. In order to provide certainty on the manner of calculation of the aforesaid time limit due to conflicting judicial interpretation on the same, it is proposed to clarify that for the purpose of passing the order by the TPO, the calculation of 60 days shall be made in the following manner:

- (a) where the period of limitation expires on 31st of March of any year (not being a leap year), the order by the TPO can be passed up to the 30th of January of that year;
- (b) where the period of limitation expires on 31st of March of any year (being a leap year), the order by the TPO can be passed up to the 31st of January of that year;

- (c) where the period of limitation expires on 31st of December of any year, the order by the TPO can be passed up to the 1st of November of that year.”

The above amendment shall be effective retrospectively from June 1, 2007.

Further, the similar amendment has been made in Section 166 of the IT Act, 2025 dealing with reference to TPO. It has been proposed that the order of the TPO has to be made at any time before one month prior to the month in which the period of passing the assessment expires. Accordingly, where such period expires on:

- a) the 31st March of any year, the order of the TPO shall be made on or before the 31st January of that year;
- b) the 31st December of any year, the order of the TPO shall be made on or before the 31st October of that year.”.

The above amendment shall be applicable from April 1, 2026.

Amendments in Safe Harbour rules

It is proposed to be include software development services, IT enabled services, knowledge process outsourcing services and contract R&D services relating to software development under a single category of Information Technology Services with a common safe harbour margin of 15.5 percent applicable to all.

The threshold for availing safe harbour for IT services is being enhanced substantially from Rs. 300 crore (3 billion) to Rs. 2,000 crore (20 billion).

Safe harbour for IT services shall be approved by an automated rule-driven process without any need for tax officer to examine and accept the application. Once applied by an IT Services company, the same safe harbour can be continued for a period of 5 years.

It is also proposed to provide safe harbour to non-residents for component warehousing in a bonded warehouse at a profit margin of 2 percent of the invoice value. The resultant tax would be around 0.7%.

Capital Gains

Transaction of buyback of shares to be subject to Capital Gains

Under the existing provisions, buyback of shares by a company is treated as dividend in the hands of the shareholder under section 2(40)(f) of the IT Act, 2025, which is subject to normal rate of taxation as applicable under the said Act read with the DTAA where applicable.

It is proposed to tax the gain or loss arising on buy back of shares as capital gains in the hands of the shareholders. Further, it is also proposed to amend section 69 to provide that in case of a 'promoter', an additional income tax in respect of capital gains shall be levied as given below:

Sl. No.	Income	Rate, where the promoter is a domestic company	Rate, where the promoter is other than a domestic company
1	Short-term capital gains arising from the transfer of securities subject to Securities Transaction Tax.	2%	10%
2	Long-term capital gains on transfer of securities	9.5%	17.5%

For the purpose of above taxation, the promoter has been proposed to be defined in Section 69 as under:

- a) In case of a listed company, promoter shall have the meaning as per regulation 2(k) of the Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018.
- b) In case of an unlisted company, promoter means a promoter as defined in Section 2(69) of the Companies Act, 2013 or a person who holds directly or indirectly, more than 10% of the shareholding in the company.

This amendment will be effective from April 1, 2026.

Return Filing, Assessment, Time limit for completion of assessment, Appeal

Revision in the due date of filing tax return

The due date for filing return of income in the case of the following persons is proposed to be extended from 31st July to 31st August, where provisions of 92E (filing of accountant's report in respect of international transactions with Associated Enterprises) do not apply:

- (i) assessees having income from business or profession whose accounts are not required to be audited;
- (ii) for partner of a firm whose accounts are not required to be audited.

This amendment shall be effective from the March 1, 2026. It has been clarified in the memorandum explaining the Finance Bill 2026, the said amendment shall be applicable for tax returns to be filed for Assessment Year 2026-27.

Corresponding amendment has been made in the IT Act 2025, which shall be effective from April 1, 2026.

Extension of the period of filing revised tax return

Under the existing provisions of Section 263(5) of the IT Act 2025, a return of income can be revised up to 9 months from the end of the relevant tax year. It is proposed to increase the said time limit from 9 months to 12 months from the end of the relevant tax year.

It is also proposed to levy a fee where a revised return is filed beyond 9 months from the end of the relevant tax year. In this regard, amendment has been proposed in Section 428(b) of the IT Act 2025, as per which the fee shall be as under:

- a) Rs.1000, if the total income does not exceed Rs.500,000;
- b) Rs.5000, in other cases.

The above amendments shall be effective from April 1, 2026.

Corresponding amendments have been made in the IT Act 1961 by way of amendments in Section 139(5) and insertion of Section 234-I in the said Act. The amendments in the IT Act 1961 shall be effective from March 1, 2026. It has been clarified in the memorandum explaining the Finance Bill 2026, the said amendment shall be applicable for tax returns to be filed for Assessment Year 2026-27.

Extension of the scope of Updated return

As per the provisions of Section 263(6) of the IT Act 2025, updated return of income can be filed up to 48 months from the end of the financial year succeeding the relevant tax year, subject to the payment of additional tax as specified.

It is proposed to provide that Updated return can also be filed in a case where the updated return has the effect of reducing the loss claimed in the original tax return. Earlier, the scope of the Updated return was restricted to a case where the Updated return had the effect of converting the loss claimed in the original tax return to 'income'.

Further, updated return has also been proposed to be allowed in cases where proceedings of income escaping assessment have been initiated, subject to the levy of further additional income tax of 10% of the aggregate of tax and interest payable. It has been further proposed that where the further additional tax is paid, the income on which such additional income tax is

paid shall not form the basis of imposition of penalty for under-reporting or misreporting of income under section 439.

The above amendment shall be applicable from April 1, 2026.

Corresponding amendments have been made in Section 139 and Section 140B of the IT Act 1961 with effect from March 1, 2026.

Clarification on the time limit for completion of an assessment after DRP directions

Where in the course of an assessment, transfer pricing adjustments are made or where any variation to the income of the non-resident (including foreign company) is made, the assessing officer is required to pass a 'draft' order of assessment in case of such eligible assessee. The eligible assessee can approach Dispute Resolution Panel ("DRP") challenging the variations proposed to his income, in which case final order of assessment is not passed by the assessing officer till the issue of the directions of the DRP.

Disputes had arisen with regard to the time limit for passing the final assessment order by the assessing officer after the directions of the DRP and courts have, in some cases, held the assessment order as time barred after including the period of disposal of the objections by the DRP, within the time limit for completion of the assessment.

In order to provide certainty on the issue of time limit of passing the final assessment order by assessing officer pursuant to the directions of the DRP, it is proposed to clarify that the time period available for assessing officer to pass the assessment order upon receipt of the directions of the DRP shall be governed by the time limit prescribed in Section 144C and the normal time limit prescribed under section 153 and 153B shall not apply. Consequential amendments have been made in section 153 and section 153B of the IT Act 1961.

The above amendment shall be effective retrospectively from April 1, 2009. The amendment in section 153B shall be effective from October 1, 2009.

Corresponding amendments have been made in Section 275 and 286 of the IT Act 2025 with effect from April 1, 2026.

Assessments not to be invalidated due to defect in or omission of DIN

As per CBDT Circular 19/2019, quoting of a computer-generated Document Identification Number ("DIN") is mandatory on assessment orders and other documents, notices issued by Income-tax authorities. Any communication which is not in conformity with the aforesaid circular is treated as invalid.

In case of defects in the manner of quoting of DIN in the assessment orders, the courts have invalidated the assessment orders. In order to protect the assessments invalidated due to above defects but passed in substance as per the provisions of the law, it has been proposed, by inserting Section 292BA in the IT Act 1961, to clarify that no assessment under any provisions of the IT Act 1961 shall be invalid on the grounds of any mistake, defects or omission in respect of quoting of DIN, if the assessment order is referenced by the DIN in any manner.

The memorandum explaining the Finance Bill has proposed to make the amendment retrospectively applicable from October 1, 2019.

Corresponding amendment has been made in Section 522 of the IT Act 2025, which shall be effective from April 01, 2026.

New scheme for rule-based issuance of certificate for determination of tax for small taxpayers

Section 395 of the IT Act 2025 permits an assessee to make an application before the assessing officer for deduction of income tax at a lower rate or no deduction of income tax.

In order to ease the compliance burden of small taxpayers, it is proposed to provide an option to the payee to file the application for automatic issuance of the certificate before the prescribed income tax authority, subject to the conditions to be prescribed.

The prescribed income tax authority may, on electronic verification of the contents of the application, reject the application if the prescribed conditions are not fulfilled or the application is incomplete.

The above amendment shall be effective from April 1, 2026.

Reassessment

Clarification regarding jurisdiction to issue notice for income escaping assessment

Under the provisions of the IT Act 1961, assessments are carried out in a faceless manner (except for specified assessees or cases).

In case of an income escaping assessment, the assessment or reassessment is also carried out in a faceless manner. However, the notice to initiate the assessment or reassessment is issued by the assessing officer having jurisdiction over the assessee and thereafter the case is transferred to the National Faceless Assessment Centre ("NaFAC") for carrying out assessment in a faceless manner.

The courts in some cases had held that the notice to initiate assessment or reassessment should also be issued by NaFAC, due to which the assessments not conforming to the said procedure were held to be invalid.

In order to provide clarity and achieve certainty on the issue, it is proposed to insert Section 147A to provide that for the purpose of issue of notice for the assessment or reassessment under section 148 and 148A, a notice shall be issued by the assessing officer other than the NaFAC or any of its assessment units, i.e. only by the jurisdictional assessing officer.

The above amendment shall be effective retrospectively from April 1, 2021.

Similarly, amendment has been made in section 279 of the IT Act 2025 with effect from April 1, 2026.

TDS and TCS (withholding tax)

TDS exemption to individual in respect of interest on the motor accident compensation

In respect of interest on the motor accidents compensation awarded by Motor Accidents Claims Tribunal, TDS is not deductible under section 393 where such amount does not exceed Rs.50,000 during the tax year.

It is proposed to exempt such interest from tax in the hands of individuals or HUF. Consequently, it is also proposed to provide exemption from TDS to an individual from the TDS deduction on the above interest.

In respect of a person other than an individual, the exemption shall be available if the amount of such compensation does not exceed Rs.50,000 during the tax year.

The above amendment shall be effective from April 1, 2026.

Rationalisation of rates of TCS

In respect of tax collection at source ("TCS"), it is proposed to rationalise the multiple rates provided in section 394(1) of the IT Act, 2025. The proposals as made are as under:

Sl. No	Nature of receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption.	1%	2%
2	Sale of tendu leaves.	5%	2%

3	Sale of scrap.	1%	2%
4.	Sale of minerals, being coal or lignite or iron ore	1%	2%
5.	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding Rs 10,00,000—	(a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.	(a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.
6.	Sale of “overseas tour programme package” including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure.	(a) 5% of amount or aggregate of amounts up to Rs 10,00,000; (b) 20% of amount or aggregate of amounts exceeding Rs 10,00,000.	2%

The above amendments shall be effective from April 1, 2026.

Relaxation from obtaining TAN to a resident individual or HUF for deduction of TDS on payment to non-resident seller of immovable property

In order to reduce compliance burden for the resident individual and HUF, it is proposed that obtaining of a Tax deduction Account Number (“TAN”) to deduct tax at source on the consideration payable to a non-resident in respect of transfer of any immovable property shall not be required.

The above amendment shall be effective from April 1, 2026.

Supply of manpower services to be subject to TDS rates applicable on payments to contractors

In order to provide clarity with respect to the applicable TDS rate on the payments for supply of manpower, it is proposed to amend definition of ‘work’ as contained in section 402(47) to cover in its ambit “supply of manpower to a person to work under his supervision, control or direction”. Accordingly, the payments for supply of manpower shall be subject to TDS rate of 1% when the payment is made to an individual or HUF and 2% in other cases.

Miscellaneous Amendments

Minimum Alternate Tax (MAT) credit to be discontinued and reduction in rate

Presently minimum alternate tax ("MAT") is applicable at 15% of the book profits of the companies under section 206 of the IT Act, 2025. The credit of MAT is available for set off against the income of the subsequent year where such income under normal provisions of the Act exceeds the MAT liability. MAT credit can be carried forward up to 15 years.

It is proposed to reduce MAT rate from 15% to 14% of the book profits. Further, MAT credit is proposed to be discontinued.

MAT credit accumulated till March 31, 2026 under the provisions of Section 115JAA of the IT Act 1961 shall be allowed to a domestic company, which shall opt for concessional taxation regime under section 200(5) or section 201(2) for tax year 2026-27 onwards, in 15 tax years immediately succeeding the tax year in which MAT credit first became allowable under section 115JAA. The MAT credit set off, however, shall not exceed 25% of the tax payable on the total income of the company computed under the normal provisions.

However, in the case of a foreign company, MAT credit shall be allowed in the year where tax on the total income under normal provisions of the Act exceeds the MAT liability and to the extent of excess of tax payable under normal provisions of the Act over the liability under MAT provisions. Such carry forward and set off of MAT credit shall be available till 15th tax year immediately succeeding the tax year in which the MAT credit first became allowable.

It has been also provided that in the case of a conversion of a private company or unlisted public company into a Limited Liability Partnership ("LLP"), MAT credit shall not be allowed to the successor LLP.

The above provisions shall be effective from April 1, 2026.

MAT not to apply to all non-residents which are subject to presumptive taxation

The provisions of MAT are not applicable to certain foreign companies including the companies which are subject to presumptive taxation regime.

In order to ensure similar treatment for all the specified businesses of non-residents subject to presumptive taxation, it is proposed to provide that the provisions of MAT shall not apply to the foreign companies which have opted for presumptive taxation as per section 61(2) of the IT Act, 2025.

The above amendment shall be effective from April 1, 2026.

Deduction for employee contribution towards welfare funds to be available if deposited by the due date of filing return

The deduction of any amount of contribution received by the assessee being an employer, from an employee towards any provident fund or other welfare funds provided in section 2(49)(o) of the IT Act 2025, if such amount is credited by the assessee to the account of the employee in the relevant fund or funds by the due date for the relevant fund. It is proposed to amend section 29(1)(e) to provide that the due date for the said clause shall be the due date of filing of return of income.

The above amendment shall be effective from April 1, 2026.

Non deduction to be allowed against Dividend Income and Mutual Funds

Section 93 of the IT Act 2025 allows deduction of any expenditure incurred for the purpose of realising dividend or interest against the dividend or interest income to the extent of 20% of such income.

It is proposed that no deduction shall be allowed in respect of any expenditure incurred for earning dividend income or income from units of Mutual Fund.

The above amendment shall be effective from April 1, 2026.

Repeal and Savings of proceedings under the IT Act 1961

Section 536 of the IT Act 2025 deals with repeal and savings of the proceedings, declarations, approvals, etc under the IT Act 1961. It is proposed that where any sum has been allowed as deduction or has not been included in the total income under the IT Act, 1961, whether on non-fulfilment of the prescribed conditions or otherwise, such sum will be deemed to be income under IT Act, 2025.

The above amendment shall be effective from April 1, 2026.

Penalties and Prosecution

Penalty for underreporting or misreporting of income to be levied within assessment order

It is proposed to provide that where any assessment or reassessment is made on or after April 1, 2027 in respect of assessment year 2026-27 or any earlier assessment year, penalty for

under-reporting or misreporting of income shall be imposed as a part of such order of assessment or reassessment.

It has been further proposed in Section 220 of the IT Act 1961 that demand raised on account of penalty shall be stayed till the date of passing of the order by the CIT (Appeals)/ITAT (where the appeal is filed to the ITAT against the assessment order passed in pursuance of the directions of the DRP). Accordingly, no interest shall be charged on the demand raised on account of penalty till the disposal of the appeal by the first appellate authority, irrespective of the outcome of the said appeal.

The above amendment shall be applicable from March 1, 2026.

Scope of immunity from penalty for under reporting of income to cover cases of misreporting of income as well

Under the provisions of Section 270AA of the IT Act 1961, the assessing officer is empowered to grant immunity from imposition of penalty under section 270A for under reporting of income and initiation of prosecution proceedings under section 276C or 276CC. The immunity from the imposition of penalty for misreporting of income is, however, not available. Misreporting of income attracts penalty of 200% of the tax payable.

It is now proposed to cover the cases of misreporting of income for immunity under section 270AA, where the assessee pays an additional income tax of 100% of the amount of tax payable on such income in lieu of the penalty. Further, where the penalty is levied in the assessment order itself, the assessing office shall be empowered to grant waiver of said penalty.

No immunity shall be granted where prosecution proceedings have already been initiated against the assessee.

The above amendments shall be effective from March 1, 2026.

Similar amendments have been made in Section 440 of the IT Act 2025 with effect from April 1, 2026 to extend the scope of immunity to misreporting of income, subject to payment of additional income tax of 100% of the tax payable on such income, in lieu of penalty.

Rationalisation of tax rate on incomes in the nature of unexplained credits, etc. and penalty thereon

Section 195 of the IT Act 2025 provides for a tax rate of 60% on the incomes on account of unexplained credit, unexplained investment, unexplained expenditure etc. as referred to in section 102 to 106. Further, section 443 provides for 10% penalty on the above income.

It is proposed to reduce the tax rate of 60% to 30% and cover the above cases as misreporting of income for levy of penalty under section 439 at 200% of the tax payable.

Consequent to the above amendment, the separate penalty provided under section 443 on the above incomes is proposed to be omitted.

Further, it is proposed to provide an option to the assessee to seek waiver of penalty on the above income, levied on account of misreporting of income, for waiver under section 440, subject to the payment additional tax amounting to 120% of the tax payable.

The above amendments shall be applicable from April 1, 2026.

Rationalisation of Penalties into Fee

Penalties for certain technical defaults such as failure to get accounts audited, non-furnishing of transfer pricing audit report and default in furnishing statement for financial transactions, are proposed to be converted into fee, which will be levied automatically on occurrence of the default. The penalties proposed to be converted into fee are as under:

Nature of default	Penalty as per existing provision	Fee proposed in lieu of penalty
Sec 446: Failure to get accounts or furnish the audit report as required under section 63	0.5% of sales/ receipts or Rs. 150000 whichever is less.	Sec 428(c): Rs. 75000 for a delay up to one month and Rs 150000 thereafter
Sec 447: Failure to furnish the report in respect of international transactions as per section 172	Rs. 100000	Sec 428(d): Rs. 50000 for a delay up to one month and Rs 100000 thereafter
Sec 454: Failure to furnish statement of financial transaction or reportable account:		
<ul style="list-style-type: none"> • under section 508(1) 	Rs 500 per day	Sec 427(3): Fee of Rs. 200 per day (max Rs. 100000)
<ul style="list-style-type: none"> • as required in the notice issued under section 508(7) 	Rs 1000 per day	Sec 454: Penalty of Rs 1000 per day (max Rs 100000)

Rationalisation of prosecution proceedings

In order to make the punishment for certain offences proportionate to the offence, it is proposed to amend section 473 to 485 and section 494 of the IT Act 2025 as per the following principles:

- (a) The nature of punishment is changed from rigorous imprisonment to simple imprisonment wherever prescribed in the sections mentioned above.
- (b) Maximum punishment is proposed to be limited to 2 years from its current 7 year and for the subsequent offences, it is reduced to 3 years from its current 7 years.
- (c) Wherever punishment of offences is prescribed based on certain grading of amount of tax evaded, new grading of offences and its corresponding punishment is prescribed.
- (d) For amount of tax evaded does not exceed Rs 1,000,000, punishment of only fine is prescribed.
- (e) Imposition of fine is introduced in lieu of or in addition of imprisonment.
- (f) Certain offences are fully decriminalized.

The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

Under Indian tax law, foreign assets held by prescribed individuals are required to be disclosed in their tax return. Non-compliance of such disclosure requirements could invoke significant penal consequences under the Act as well as the Black Money law.

It was noticed that inadvertent non-disclosure is more prevalent in small taxpayers such as former overseas students, Indians returning to India after completion of overseas assignments etc. The Union Budget has proposed to introduce a limited window amnesty scheme for disclosure of such previously undisclosed foreign assets and income, upon payment of additional tax and / or fee. The scheme known as 'The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026, will be effective from a date notified by the Central Government.

This scheme shall be open for resident taxpayers who have failed to comply with the necessary disclosure requirements. Furthermore, this scheme also extends to non-residents and Not Ordinarily Residents, who had failed to make the requisite disclosures in earlier years when they were tax residents.

Eligible taxpayers who file valid declarations under this scheme shall be granted immunity from penalty and prosecution under Black Money law. This immunity shall be restricted to the matters covered under the declaration.

The quantum of additional tax payable under this amnesty scheme is as follows:

Sl. No.	Situations Covered	Amount
1.	The aggregate value of undisclosed asset located outside India and undisclosed foreign income does not exceed Rs 1 crore (10 million)	Aggregate of the following: (1) 30% of the value of such foreign asset; (2) 30% of the value of such foreign income; (3) 100% of the aggregate of (1) and (2) above.
2.	(a) Where a 'non-resident' acquired any foreign asset from foreign sourced income (which was non-taxable). Thereafter, such person fails to disclose such foreign asset on becoming a 'tax resident' subsequently. or (b) Where a person acquired foreign asset from foreign sourced income which was taxed in India. However, such person fails to disclose such foreign asset in the required schedule of the tax return (Schedule FA) [If the value of the asset located outside India does not exceed Rs. 5 crore (50 million)]	Rs. 100,000

The person making the declaration is required to pay the relevant tax only upon communication thereof (by way of an order) by the concerned income tax authority. Thereafter, the assessee may make the payment within two months (extendable by further two months with interest) from the end of the month in which such order is received and intimate the same.

The relevant authorities shall pass an order certifying the payment of requisite tax, interest etc under the scheme, which shall be final. This order is to be passed within one month from the end of the month in which the intimation for tax payment is received.

It is pertinent to highlight that the Government has excluded the following situations from the scope of the proposed scheme:

- Declarations relating to proceeds of crime for which proceedings have been initiated under anti money laundering legislation
- Income / assets for years in respect of which proceedings under the black money law have been completed.

Relaxation from prosecution under Black Money law for non-disclosure of small foreign assets other than immovable property

In order to provide relief in cases of non-disclosure of small foreign assets, it is proposed to provide in section 49 and 50 of the Black Money Act that prosecution provisions as stated in the said sections shall not apply in respect of non-disclosure of assets (other than immovable property) where the value of such assets does not exceed Rs.20,00,000.

The above amendment shall be effective retrospectively from October 1, 2024.

Goods and Services Tax

The Finance Bill, 2026 proposes to give effect to the recommendations of the 56th GST council meeting held in September 2025. These changes aim to simplify processes, reduce litigation and improve ease of doing business.

Key amendments

Amendment in the Place of Supply provisions for intermediary services

The Finance Bill, 2026 has proposed the omission of clause (b) of Section 13(8) of the IGST Act, 2017. Pursuant to this amendment, the 'place of supply' for Intermediary Services will now be determined under the general rule prescribed in Section 13(2) of the IGST Act, i.e., the location of the service recipient.

Accordingly, intermediary services rendered to foreign recipients would now qualify as export of services, subject to fulfilment of the certain prescribed conditions.

The amendment not only enhances the competitiveness of Indian intermediaries in global markets but also resolves long-standing disputes and litigation surrounding the taxability of such services in sectors like marketing, advertising, education, and consultancy.

Valuation of Supply in case of Post-Sale Discounts

Amendment to Section 15(3): The earlier condition requiring a prior agreement (entered at or before the time of supply) for allowing post-sale discounts has been omitted. Post-sale discounts can now be deducted from the taxable value even if agreed after the supply, subject to the following two conditions:

- a) The discount is properly documented through issuance of a credit note by the supplier.
- b) The recipient reverses the corresponding Input Tax Credit (ITC).

Amendment to Section 34: This section has been aligned with Section 15(3) by explicitly permitting issuance of credit notes for such post-sale discounts. The credit note mechanism now clearly supports tax adjustment, provided the recipient reverses the proportionate ITC.

The above changes would be effective from the date of issue of the relevant Notification in this regard.

National Appellate Authority for Advance Ruling (NAAAR)

To provide an interim mechanism for resolving conflicting advance rulings, the Finance Bill, 2026 has inserted a new sub-section (1A) in Section 101A of the CGST Act, 2017.

Under this provision, the Government is empowered to notify an existing authority or a tribunal to function as the National Appellate Authority for Advance Ruling (NAAAR) until the constitution of the National Appellate Authority.

This amendment shall come into effect from April 1, 2026.

Customs Law

The Finance Bill, 2026 introduces legislative changes to the Customs Act, 1962, and policy reforms aimed at simplifying processes, promoting trust-based clearances, and supporting key sectors.

Key amendments

Extension of the validity of Advance Rulings

The validity period of Advance Rulings has been extended from 3 Years to 5 Years.

Notification of the Baggage Rules, 2026

Government has notified the **Baggage Rules, 2026**, effective 2nd February 2026, introducing higher duty-free allowances for passengers. The new rules streamline categories of travellers, rationalise duty-free allowances and update the list of permissible household and electronic items.

These changes shall come into effect from midnight of February 2, 2026.

Consolidation/Simplification of Exemptions/Concessions

In continuation of the overall simplification and consolidation exercise, a comprehensive review has been undertaken in respect of exemptions/concessional duty rate entries in Notification No. 45/2025-Cus. dated 24-Oct-25, Notification No. 36/2024-Cus. dated 23-Jul-24 and other Customs notifications.

Trust Based Facilitation in imports

The deferred payment period for customs duty is proposed to be extended from 15 days to 30 days without any interest implications. This reform will provide greater operational flexibility, reduce transaction costs, and align duty payments with business cycles and increase better working capital management.

E-Commerce Reforms/Measures

The Finance Bill, 2026 proposes to implement following measures to support overall export growth and ease of doing business:

Removal of value cap on commercial exports through courier mode

Upon implementation, exporters will be permitted to ship consignments of any value via courier services. This measure is expected to reduce dependence on traditional cargo channels and significantly benefiting MSMEs, artisans, and e-commerce exporters by enabling faster, simpler, and more efficient access to global markets.

Return to Origin (RTO) for Courier Shipments

The proposed Return to Origin (RTO) reform introduces a legal framework to allow return of unclaimed or uncleared international courier consignments to the foreign sender after a prescribed period, instead of auction or destruction. This reform is expected to ease congestion at warehouses, expedite disposal of uncleared parcels, and reduce the administrative burden on customs authorities and courier operators.

Returns and Rejects in E-commerce Exports

The reform proposes a dedicated digital return facility that seamlessly links returned consignments with their original export records. This system will allow routine parcels to be cleared swiftly, while only high-risk cases are subjected to examination. The measure is expected to simplify reverse logistics, reduce compliance costs, prevent levy of import duties on returned goods by treating them as fresh imports, and encourage MSMEs and exporters to expand global e-commerce operations by offering reliable return mechanisms to international customers.

Digital Governance – Single Government EXIM interface

The Government has proposed the following reforms to enhance e-governance and simplify regulatory clearances by enabling seamless electronic interaction between trade and Customs:

SWIFT 2.0

SWIFT 2.0 is an advance digital platform developed by CBIC. SWIFT 2.0 reduces the need for multiple submissions, accelerates clearance timelines, enhances transparency through unified dashboards, streamlines payments, and facilitates easier access to all required licenses and clearances through a single digital platform.

Customs Integrated Systems (CIS)

CIS is a unified digital platform covering import, export, and transshipment across sea, air, land, courier, and post. CIS will provide a single interface, standardize procedures, eliminate manual processes, and enable end-to-end digitization with AI-assisted validation, real-time dashboards, and seamless data exchange with GSTN, RBI, DGFT, and PGAs.

About Us

Mohinder Puri & Co. is a firm of Chartered Accountants established in 1954. Led by eminent and highly experienced partners and complemented by a team of multi-disciplinary professionals, we offer a diverse range of professional services to our clients, besides our core competencies of audit and taxation. With over 65 years of experience, we have been providing advice and support to domestic and international clients in diverse sectors on audit, accounting, taxation and regulatory matters. Built on a strong commitment to client service, the Firm acts as a One-Stop Advisor offering expertise and hands-on support. We pride ourselves on our quality and integrity to drive the growth of our clients.

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