



# Union Budget 2026

## Decoding the Direct Tax Blueprint for the new era



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## Union Budget 2026 - Decoding the Direct Tax Blueprint for a New Era

We are pleased to present comprehensive highlights of the Union Budget 2026-27 relating to direct taxes, marking the Honourable Finance Minister's ninth consecutive Budget and the first one after the enactment of the new Income-tax Act, 2025. The Union Budget 2026-27 largely focused on administrative and compliance reforms in direct taxation while keeping the core income-tax structure unchanged. The announcements provide relief in specific areas of compliance, rationalise tax collection points, and strengthen the tax framework for investment and global income reporting.

### 1. New Income Tax Law - Simplification and Modernisation

The Income Tax Act, 2025 will replace the current Income-tax Act, 1961, effective April 01, 2026. The new Act aims to simplify language, consolidate provisions, and reduce compliance friction for taxpayers and professionals. Policy changes announced in the Budget will be incorporated through appropriate amendments under the new Act.

### 2. No Change in Basic Slabs or Exemption Limits

No changes were announced in income-tax slabs or exemption thresholds under either the old or new tax regimes for FY 2026-27. The slab structure and rates applicable in the previous year continue without modification.

#### A. Individual Taxpayers

- Under the new tax regime, the basic exemption continues up to ₹4 lakhs, with graduated rates applicable thereafter.
- The Section 87A rebate remains unchanged, ensuring resident individuals with taxable income up to ₹12 lakhs (or ₹12.75 lakhs after considering standard deduction for salaried taxpayers) effectively pay no income tax.

#### B. Corporate Taxation

Corporate tax rates remain unchanged:

- Domestic companies opting for concessional regimes continue to be taxed at 22% (plus surcharge and cess), subject to prescribed conditions.

- New manufacturing companies continue to enjoy the concessional 15% tax rate, subject to existing eligibility conditions.
- Companies not opting for concessional regimes remain taxable under existing rate structures based on turnover thresholds.
- No additional corporate tax incentives or rate reductions were introduced in this Budget.

### **C. Co-operative Societies**

Taxation of co-operative societies also remains unchanged:

- Societies may continue under the existing progressive tax rate structure, or
- Opt for the concessional regime providing taxation at 22%, subject to prescribed conditions and forfeiture of certain deductions.

No modification in surcharge or cess structure was announced.

### **D. LLPs and Partnership Firms**

Limited Liability Partnerships (LLPs) and partnership firms continue to be taxed at 30% flat tax rate, plus applicable surcharge and cess, with no change proposed in Budget 2026-27.

## **3. Return Filing Framework - Greater Flexibility Introduced**

One of the most impactful compliance changes relates to return filing timelines.

### **A. Extended Due Dates for Non-Audit Cases wef from AY 2026-27**

To ease filing pressure:

- Non-business individuals continue to file by 31 July
- Non-audit business taxpayers and partners of non-audit firms now get time until 31 August
- Audit cases continue with 31 October due date

### **B. Revised Return Filing Extended**

The time limit for filing revised returns has been increased from 9 months to 12 months from end of assessment year, allowing revisions up to 31 March.

A modest fee now applies for revisions filed after 9 months:

- ₹1,000 where total income  $\leq$  ₹5 lakh
- ₹5,000 in other cases

This encourages timely compliance while still permitting correction of genuine mistakes.

### **C. Updated Returns - Scope Expanded**

The updated return mechanism continues to evolve:

- Updated returns can now reduce previously declared losses
- Filing is permitted even after reassessment notice in specified cases
- Additional tax of 10% over regular updated return tax applies in such cases

The objective is to encourage voluntary compliance instead of litigation.

## **4. Financial Services sector – IFSC**

- The tax holiday period for any IFSC unit (including existing units) to be extended from current 10 consecutive years to
  - 20 consecutive years for eligible bank/offshore banking unit
  - 20 consecutive years (out of 25 years) for eligible IFSC unit
- Specified income post tax holiday period to be taxed at concessional rate of 15%
- No tax holiday for unit commencing operations on or after April 1, 2026, if such unit is formed by splitting up, reconstruction, reorganisation, or transfer of an existing business in India

## **5. Assessment and Reassessment Reforms - Reducing Technical Litigation**

Several procedural disputes historically arose from technical defects. The Budget introduces clarifications:

- Only jurisdictional Assessing Officers can issue reassessment notices
- Orders will not become invalid due to minor DIN or technical errors
- DRP and transfer pricing timelines clarified
- Block assessments of third parties limited only to relevant years
- Overall block assessment timelines extended to 18 months for coordinated assessments

These steps aim to ensure proceedings fail only on merits, not technicalities.

## 6. Appeal Mechanism - Cash Flow Relief for Taxpayers

The Budget recognises hardship faced by taxpayers during prolonged litigation:

- Pre-deposit requirements for demand stay are rationalised
- Interest burden during pendency of penalty appeals eased

These changes improve cash-flow management while appeals are adjudicated.

## 7. TCS & TDS Rationalisation

- Several key adjustments were made to withholding provisions aimed at reducing upfront tax burden and simplifying compliance:
- TCS on overseas remittances for education and medical purposes under the Liberalised Remittance Scheme is reduced from 5% to 2%.
- TCS on sale of overseas tour packages is rationalised to a flat 2%.
- TCS on sale of scrap increased from 1% to 2%.
- Tax deducted at source (TDS) on manpower supply services is clarified at rates of 1% - 2%.
- Depositories can now accept Form 15G/15H directly from taxpayers holding securities to ease withholding for interest and dividend income.
- TAN requirement removed for TDS on property purchases from non-residents; buyers can now use their PAN.

## 8. Capital Gains and Investment Taxation

- **Share Buybacks:** Buyback proceeds will now be taxed under the head “Capital Gains” instead of dividend income, thereby allowing shareholders to deduct acquisition cost while computing gains and removing distortions under the earlier framework where cost was separately treated as capital loss.

Under the existing provisions of section 2(40)(f) of the Income Tax Act, 2025, buyback consideration was taxed as dividend income. The amendment aligns taxation with the economic nature of buyback transactions.

To discourage misuse of buybacks as promoter exit mechanisms:

- Promoters will be subject to an effective tax rate of 30% on buyback gains.
- Promoter companies will face an effective tax rate of 22%.

This rationalisation brings parity between buybacks and regular share transfers while curbing tax arbitrage.

- **Sovereign Gold Bonds (SGB):** Capital gains exemption will now apply only when bonds are purchased at original issue price and held until maturity, discouraging speculative secondary-market purchases solely for exemption benefits.
- **STT Adjustments:** Securities Transaction Tax on equity derivatives increases.  
Futures: 0.02% → 0.05%  
Options premium: 0.10% → 0.15%

This marginally increases trading costs for derivatives traders.

## 9. Dividend Income:

Interest expenditure incurred to earn dividend or mutual fund income has been made fully non-deductible, replacing the earlier restricted deduction framework. This simplifies computation and curtails arbitrage.

## 10. Employer Compliance Relief - Welfare Fund Contributions

Employee contributions to PF, ESI and other welfare funds are now deductible if deposited up to return filing due date, instead of statutory labour law due dates.

This prevents permanent disallowances caused by minor delays.

## 11. Taxation of Unexplained Income

Tax on unexplained income such as credits, investments, assets, or expenditure is proposed to be reduced from 60% to 30%. The separate penalty of 10% is also proposed to be withdrawn, with such cases being subject to penalty applicable for misreporting of income, in line with general penalty provisions

## 12. Penalty Rationalisation and Decriminalisation

The government continues reducing criminal consequences for procedural lapses.

Key developments:

- Replacement of prosecution exposure with monetary consequences
- Integration of assessment and penalty proceedings

- Expanded immunity options upon voluntary tax payment

The emphasis shifts from punishment to compliance facilitation.

### **13. Changes in MAT:**

- The MAT rate has been revised to 14%, as against the earlier rate of 15%.
- With effect from tax year any MAT levied shall not be allowed to be carried forward under the old tax regime as tax payable under MAT is proposed to be treated as final tax.
- Set-off of brought-forward MAT credit shall be now allowed under new tax regime and such set-off shall be restricted to 25% of the tax liability for the relevant year.
- In the case of foreign companies, set-off of MAT credit is proposed to be allowed to the extent of the difference between normal tax and MAT, where the normal tax liability exceeds the MAT.
- MAT is not applicable to Non-Resident who opt for presumptive tax regime.

### **14. Compulsory Land Acquisition:**

Compensation received for compulsory acquisition of land under the RFCTLARR Act, 2013 will now be fully exempt from income tax, except in certain private acquisition cases covered under Section 46.

This amendment removes ambiguity and formally incorporates existing CBDT clarification into the law.

### **15. Exemption on foreign income to non-resident technicians:**

Exemption provided to Non-Resident Individuals visiting India for rendering services in connection with any notified Scheme of the central government from paying tax on non-Indian sourced income for a period of 5 years.

### **16. Foreign Assets Disclosure Scheme**

A one-time, six-month foreign asset disclosure regime is introduced to bring overseas income/assets into compliance with a structured tax and penalty-plus-immunity framework particularly focused on small taxpayers, students, and relocated professionals.

### **17. Reduced payment towards obtaining stay on recovery of tax**

Under the existing provisions, an assessee filing an appeal against an order of the Assessing Officer is required to deposit 20% of the tax and penalty demand to obtaining stay on recovery of the outstanding dues.

It is now proposed to reduce this pre-deposit requirement from 20% to 10% of the tax demand in order to secure a stay on recovery during the pendency of the appeal.

### **18. TAN Relaxation for Property Transactions:**

Resident individuals and HUFs purchasing immovable property from non-residents are exempted from the requirement of obtaining a Tax Deduction and Collection Account Number (TAN). This change removes an unnecessary procedural burden in one-off property transactions.

### **19. Jurisdiction for Reassessment Notices:**

It is clarified that pre-assessment enquiries and issuance of notices under sections 148 and 148A can be carried out only by the jurisdictional Assessing Officer, and not by NaFAC or its assessment units. NaFAC's role is limited to conducting reassessment proceedings after issuance of notice.

This clarification applies retrospectively from 1 April 2021 under the Income-tax Act, 1961, and from 1 April 2026 under the Income-tax Act, 2025

### **20. Tax exemption to a foreign company on providing capital equipment**

In order to promote manufacturing of electronic goods by a contract manufacturer and provide certainty on taxation of supply of capital equipment by a foreign company to such manufacturer, it is proposed to amend the Schedule IV to provide exemption to a foreign company for a period upto the tax year 2030-2031, on any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India, who is located in a custom bonded area (warehouse referred to in section 65 of the Customs Act, 1962) and produces electronic goods on behalf of such foreign company for a consideration.

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

## **21. Tax exemption to a foreign company on data centre services.**

In order to attract investment in data centre and promote artificial intelligence data centre framework in India, it is proposed to amend the Schedule IV of IT act 2025 to provide exemption to a foreign company, on any income from data centre services located in India and providing services to Indian customers up to tax year ending on 31st March, 2047.

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

## **22. Additional Relief Measures**

Further taxpayer-friendly provisions include:

- Interest on Motor Accident compensation made tax exempt
- Income from compulsory land acquisition exempted
- MAT provisions rationalised in certain cases
- Automated lower or nil TDS certificates for eligible taxpayers

## **23. Conclusion**

The 2026-27 Budget did not offer broad income-tax rate cuts or expanded exemptions for the middle class. Instead, it doubled down on structural and compliance reforms, aiming to simplify the tax system through a new legislative framework, rationalise TCS/TDS, and ease procedural burdens while fine-tuning capital-market taxation and international reporting obligations.

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