

**INDIA BUDGET
2026 - 27**



Soaring high on the wings of growth!

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Foreword

Budget 2026-27 presented by the Indian Finance Minister on 1 February 2026 has arrived at a defining 'Goldilocks moment' in the Indian economic odyssey. As we traverse through the second half of this decade, the national discourse has shifted from mere resilience to an ambitious, accelerated marathon towards the vision of 'Viksit Bharat 2047' or 'Developed India' in the centenary year of its independence. During the current Financial Year ('FY'), on the global front, the Indian economy has been navigating the shifting tides of global volatility, looming tariffs, surging bullion prices, cross border tensions, suspended treaties, regional security threats and rapid technological disruption.

Amidst this, India has remained active in participating in global coalitions and shaping multilateral discourse, advancing with trade agreements including recently with the European Union and leveraging its peacekeeping contributions to reinforce its global profile. Domestically, the current year was shaped by a weakening rupee, tepid foreign investor inflows, flat capital markets, Goods and Services Tax ('GST') 2.0 reforms, introduction of the Labour Codes, reforms in the Insurance sector and in the Pension Regulation, amongst others.

Unveiled against this canvas, Budget 2026-27 aims to provide a strategic masterplan designed to elevate India and transform it from a developing country mindset to a leader mindset, while ensuring that the benefits of progress reach the last mile.

The year end economic review showcases a picture of resilience, reform and recalibration with an expected growth rate in the range of 6.8% to 7.2%, a declining Debt to Gross Domestic Product ('GDP') ratio estimated at 55.6% of GDP and a fiscal deficit of 4.3 % of GDP in FY 2026-27.

The 'Reforms Express' of Budget 2026-27 moves full steam ahead with proposals to scale up manufacturing in seven strategic and frontier sectors, rejuvenating several legacy industrial clusters, providing liquidity support as well as professional support for the labour-intensive SME sector, focusing on emerging technologies including Artificial Intelligence, setting up a high level Committee on Banking to align the banking sector with India's next phase of growth, proposed comprehensive review of the Foreign Exchange (Non-debt Instruments) Rules, permitting Individuals who are Resident outside India to invest in equity instruments of listed Indian companies and an increase in the existing investment limits for such individuals under the Portfolio Investment Scheme.

In the area of tax, there was widespread expectation that there would not be any significant amendments since the new Income-tax Act, 2025 ('the New Act') has been notified less than a year ago. Nevertheless, there are some welcome measures such as the proposal to reinstate taxation of buyback of shares as capital gains, clarity on taxation of foreign companies in the businesses relating to data centre services and manufacture of electronics, exemption for overseas income of non-resident individuals visiting India to provide professional services, safe harbour for IT services, rationalisation and decriminalisation of penalty and prosecution provisions, place of supply of services under the GST law in case of intermediaries and rationalisation of Customs duty rates on various imports. On the downside, higher tax incidence for promoters in case of buyback

of shares, limiting the carry forward of Minimum Alternate Tax ('MAT') credit and retrospective amendments to overturn the effects of Court rulings may not be received well by taxpayers.

Budget 2026-27 balances the 'reform-as-fuel' philosophy with fiscal prudence. Overall, Budget 2026-27 is not merely an accounting exercise but a statement of intent of 'Ambitious India' which aspires to soar high on the wings of growth.

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1 February 2026

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Key policy announcements



Policy Reforms - Altering the economic DNA

Key policy announcements

Budget 2026-27 sets a confident tone for India's journey towards *Viksit Bharat* - a developed India - balancing economic ambition with a strong commitment to inclusion. With the Reform Express firmly on track, the Budget reaffirms India's resolve to drive broad-based progress by spurring employment, boosting productivity and accelerating economic momentum. The Budget is framed around three core Kartavyas or responsibilities.

1. First Kartavya - Accelerating and sustaining economic growth

i. **Biopharma Programme - Strategy for Healthcare Advancement through Knowledge, Technology and Innovation**

An outlay of INR 100 billion (~USD 1.10 billion) over the next five years is proposed to develop India as a global Biopharma manufacturing hub. This will build the ecosystem for domestic production of biologics and biosimilars. The strategy will include a Biopharma-focused network with three new National Institutes of Pharmaceutical Education and Research and upgrading seven existing ones.

ii. **India Semiconductor Mission**

India Semiconductor Mission ('ISM') 1.0 expanded India's semiconductor sector capabilities. Building on this, it is proposed to launch ISM 2.0 to produce equipment and materials, design full-stack Indian IP and fortify supply chains. The focus will be on industry-led research and training centres for developing technology and skilled workforce.

iii. **Electronics Components Manufacturing Scheme**

This was launched in April 2025 with an outlay of INR 229.20 billion (~USD 2.50 billion), already has investment commitments at double the target. It is proposed to increase the outlay to INR 400 billion (~USD 4.40 billion) to capitalise on the momentum.

iv. **Rare Earth Corridors**

A scheme for Rare Earth Permanent Magnets was launched in November 2025. It is now proposed to support the mineral-rich states to establish dedicated Rare Earth Corridors to promote mining, processing, research and manufacturing.

v. **Development of Dedicated Chemical Parks**

To enhance domestic chemical production and reduce import-dependency, it is proposed to launch a scheme to support states in establishing three dedicated Chemical Parks, on a cluster-based plug-and-play model.

vi. **Strengthening Domestic Capital Goods Manufacturing Capability**

The following is proposed to strengthen the capital goods manufacturing capability:

- Hi-Tech Tool Rooms will be established at two locations as digitally enabled automated service bureaus that locally design, test and manufacture high-precision components at scale and at lower cost.
- A Scheme for enhancement of Construction and Infrastructure Equipment ("CIE") will be introduced to strengthen domestic manufacturing of high-value and technologically advanced CIE.

- A Scheme for Container Manufacturing to create a globally competitive container manufacturing ecosystem, with a budgetary allocation of INR 100 billion (~USD 1.10 billion) over a five-year period.

vii. **Labour-intensive Textile Sector**

An Integrated Programme is proposed with five sub-parts including National Fibre Scheme, Textile Expansion and Employment Scheme, National Handloom and Handicraft Programme, etc.

viii. **Creating 'Champion SMEs' and supporting micro enterprises**

Recognising Micro, Small and Medium Enterprises ('MSMEs') as a vital engine of growth, a three-pronged approach is proposed to help them grow as 'Champions':

- **Equity Support:** It is proposed to introduce a dedicated INR 100 billion (~USD 1.10 billion) SME Growth Fund to create future Champions, incentivising enterprises based on select criteria. It is proposed to top up the Self-Reliant India Fund set up in 2021 with INR 20 billion (~USD 220 million) to continue support to micro enterprises and maintain their access to risk capital.
- **Liquidity Support:** With Trade Receivables Discounting System ('TReDS'), more than INR 7 trillion (~USD 77.70 billion) has been made available to MSMEs. To leverage its full potential, four measures are proposed including a mandate TReDS as the transaction settlement platform for all

purchases from MSMEs by CPSEs, introduce a credit guarantee support mechanism for invoice discounting on TReDS platform, etc.

- **Professional Support:** Government will facilitate Professional Institutions such as ICAI, ICSI, ICMAI to design short-term, modular courses and practical tools to develop a cadre of 'Corporate Mitras', especially in Tier-II and Tier-III towns. These accredited para-professionals will help MSMEs meet compliance requirements at affordable costs.

ix. **Sustained Increase in Public Capital Expenditure**

It is proposed to increase public capital expenditure to increase it to INR 12.2 trillion (~USD 135.50 billion) to continue the momentum.

x. **Promotion of Environmentally Sustainable Cargo Transportation**

To promote environmentally sustainable movement of cargo, it is proposed to:

- Establish new Dedicated Freight Corridors;
- Operationalise 20 new National Waterways over the next five years.

- Launch a Coastal Cargo Promotion Scheme for incentivising a modal shift from rail and road, to increase the share of inland waterways and coastal shipping from 6% to 12% by 2047.

xi. Carbon Capture utilization and Storage

Aligning with the roadmap launched in December 2025, Carbon Capture utilization and Storage technologies at scale will achieve higher readiness levels in end-use applications across five industrial sectors, including power, steel, cement, refineries and chemicals. An outlay of INR 200 billion (~USD 2.20 billion) is proposed over the next five years.

xii. Infrastructure and City Economic Regions

- It is proposed to continue focus on developing infrastructure in cities with over 500,000 population (Tier II and Tier III), which have expanded to become growth centres.
- The focus is on Tier II and Tier III cities and temple-towns, which need modern infrastructure and basic amenities. This Budget aims to further amplify the potential of cities to deliver the economic power of agglomerations by mapping City Economic Regions ('CER'), based on their specific growth drivers.

- An allocation of INR 50 billion (~USD 560 million) per CER over five years is proposed for implementing their plans through a challenge mode with a reform-cum-results based financing mechanism.

xiii. **Promotion of Environmentally Sustainable High-Speed Rail Growth Corridors**

In order to promote environmentally sustainable passenger systems, it is proposed to develop seven High-Speed Rail corridors between cities as 'Growth Connectors'.

xiv. **Financial Sector**

- It is proposed to set up a High-Level Committee on Banking for Viksit Bharat, to comprehensively review the sector and align it with India's next phase of growth, while safeguarding financial stability, inclusion and consumer protection.
- A comprehensive review of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 is proposed to create a more contemporary, user-friendly framework for foreign investments, consistent with India's evolving economic priorities.

xv. Corporate Bond Market

It is proposed to introduce a market making framework with suitable access to funds and derivatives on corporate bond indices. It is proposed to introduce total return swaps on corporate bonds.

xvi. Municipal Bonds

To encourage the issuance of municipal bonds of higher value by large cities, an incentive is proposed of INR 1 billion (~USD 11.10 million) for a single bond issuance of more than INR 10 billion (~USD 111.10 million). The current scheme which incentivises issuances up to INR 2 billion (~USD 22.20 million), will continue to support smaller and medium towns.

xvii. Ease of Doing Business

Individual Persons Resident Outside India ('PROI') will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme. It is also proposed to increase the investment limit for an individual PROI under this scheme from 5% to 10%, with an increase in the overall investment limit for all individual PROIs to 24% from the current 10%.

2. Second Kartavya - Fulfilling people's aspirations by strengthening their capabilities

i. High-Powered 'Education to Employment and Enterprise' Standing Committee

It is proposed to set up a High-Powered 'Education to Employment and Enterprise' Standing Committee to recommend measures that focus on the Services Sector. This will make India a global leader in services, with a 10% global share by 2047.

ii. Health

- Existing institutions for Allied Health Professionals ('AHPs') will be upgraded and new AHP Institutions established in private and Government sectors. This will cover 10 selected disciplines, including optometry, radiology, anaesthesia, OT Technology, Applied Psychology and Behavioural Health and add 100,000 AHPs over the next five years.
- A strong Care Ecosystem, covering geriatric and allied care services will be built. A variety of programmes will be developed to train multiskilled caregivers combining core care and allied skills, such as, wellness, yoga and operation of medical and assistive devices. In the coming year, 150,000 caregivers will be trained.

iii. Hubs For Medical Value Tourism

To promote India as a hub for medical tourism services, it is proposed to launch a Scheme to support States in establishing five Regional Medical Hubs, in partnership with the private sector. They will have AYUSH Centres, Medical Value Tourism Facilitation Centres and infrastructure for diagnostics, post-care and rehabilitation.

iv. Orange Economy

India's Animation, Visual Effects, Gaming and Comics ('AVGC') sector is a growing industry, projected to require two million professionals by 2030. It is proposed to support the Indian Institute of Creative Technologies, Mumbai in setting up AVGC Content Creator Labs in 15,000 secondary schools and 500 colleges.

v. Education

- It is proposed to support States in creating five University Townships in the vicinity of major industrial and logistic corridors.
- Through capital support, a girls' hostel will be established in every district.

- A pilot scheme is proposed for upskilling 10,000 guides in 20 iconic tourist sites through a standardised, high-quality 12-week training course in hybrid mode in collaboration with an Indian Institute of Management.

vi. Heritage and Culture Tourism

It is proposed to develop 15 archaeological sites into vibrant, experiential cultural destinations. Excavated landscapes will be opened to the public through curated walkways. Immersive storytelling skills and technologies will be introduced to help conservation labs, interpretation centres and guides.

vii. Sports

It is proposed to launch a 'Khelo India Mission' to transform the Sports sector over the next decade. The Mission will facilitate: a) an integrated talent development pathway, supported by training centres; b) systematic development of coaches and support staff; c) integration of sports science and technology; d) competitions and leagues to promote sports culture and provide platforms; and e) development of sports infrastructure for training and competition.

3. Third Kartavya - Ensuring inclusive development across all sections of society

i. Increasing Farmer Incomes

- Fisheries: It is proposed to undertake initiatives: (a) for integrated development of 500 reservoirs; (b) strengthen the fisheries value chain in coastal areas and enable market linkages involving start-ups and women-led groups together with Fish Farmers Producer Organisations.
- A Coconut Promotion Scheme is proposed to increase production and enhance productivity through various interventions, including replacing old and non-productive trees with new saplings/plants/varieties in major coconut growing States.

ii. Bharat-VISTAAR (Virtually Integrated System to Access Agricultural Resources)

It is proposed to launch Bharat-VISTAAR, a multilingual AI tool that will enhance farm productivity, enable better decisions for farmers and reduce risk by providing customised advisory support.

iii. SHE-Marts for Rural Women-led Enterprises

It is proposed to help women take the next step from credit-led livelihoods to being owners of enterprises. Self-Help Entrepreneur ('SHE') Marts will be set up as community-owned retail outlets within the cluster-level federations through enhanced and innovative financing instruments.

iv. Empowering individuals who are specially challenged

- It is proposed to ensure dignified livelihood opportunities in IT, AVGC sectors, Hospitality and Food and Beverages sectors for individuals who are specially challenged through industry-relevant and customised training specific to each such group.
- It is proposed to set up and upgrade National Mental Health Institutes as Regional Apex Institutions.

v. Focus on the North-Eastern Region

It is proposed to develop an integrated East Coast Industrial Corridor, creation of five tourism destinations in the five North-Eastern States and the provision of 4,000 e-buses.

Key tax proposals



Direct taxes

The Income-tax Act, 2025 ('the New Act') is effective from FY 2026-27 and will replace the Income-tax Act, 1961 ('the Old Act'). This section summarises the significant direct tax proposals announced in Budget 2026-27. These proposals are subject to the enactment of the Finance Bill, 2026. Further, the direct tax proposals in the Finance Bill, 2026 are effective from FY 2026-27 unless otherwise specifically stated. References to sections are to sections in the New Act unless otherwise stated.

I. Tax rates

No amendments have been proposed in the rates of tax for any taxpayers.

II. Provisions relating to International Financial Services Centre and Special Economic Zone

- 1. Extension of time for tax holiday for Offshore Banking Units and units in International Financial Services Centre [Sections 147 and 218]**
 - i. It is proposed to extend the tax holiday in respect of the income of Offshore Banking Units ('OBUs') in a Special Economic Zone to 20 consecutive tax years beginning from the tax year in which the OBU obtained the permission under the Banking Regulation Act, 1949.

- ii. Further, it is proposed to extend the tax holiday in respect of the business income of units in an International Financial Services Centre ('IFSC') to 20 consecutive tax years out of 25 tax years beginning from the tax year in which the relevant approval was obtained by the IFSC unit.
- iii. It is further proposed that a tax rate of 15% would be applicable to the income of OBUs after the end of tax holiday period and to units in IFSCs for any period other than the tax holiday period.

III. Provisions relating to Non-residents and Transfer Pricing

1. Safe Harbour regime for Information Technology enabled Services

- i. It is proposed in the FM's Budget speech to consolidate services relating to software development, IT enabled services, knowledge process outsourcing and contract R&D relating to software development within a common Safe Harbour margin of 15.5%. It is further proposed to enhance the threshold to avail Safe Harbour for these services from INR 3 billion (~USD 33 million) to INR 20 billion (~USD 220 million).
- ii. The Safe Harbour, once applied can be continued for a period of five consecutive years, at the option of the taxpayer.

iii. It is further proposed in the FM's Budget speech, to expedite the process of Unilateral Advance Pricing Agreements ('APA') for IT services with an endeavour to conclude these within a period of two years.

2. Clarification on the computation of period for passing the scrutiny order by the Transfer Pricing Officer [Section 166] (Old Act Section 92CA)

i. It is proposed to amend the method of computing the period within which the Transfer Pricing Officer ('TPO') is required to pass the TP scrutiny order under the Old Act as under:

Due date for passing scrutiny order	Due date to pass the TP order	Computation mechanism
31 March (leap year)	31 January	Before 60 days including the due date of passing the assessment order
31 March (non-leap year)	30 January	
31 December	1 November	

ii. The proposed amendment will be effective retrospectively from 1 June 2007 under the Old Act.

iii. Further, it is proposed to amend the method of computing the period within which the TPO is required to pass the TP scrutiny order under New Act as under:

Due date for passing scrutiny order	Due date to pass the TP order	Computation mechanism
31 March (leap year)	31 January	Before one month prior to the month in which the due date to pass the assessment order expires
31 March (non-leap year)		
31 December	31 October	

3. Return modification facility for Associated Enterprises under Advance Pricing Agreement [Section 169]

- i. A modified tax return can be filed within three months from the end of the month in which the taxpayer enters into an Advance Pricing Agreement ('APA').
- ii. It is proposed that this provision be extended to the Associated Enterprises ('AEs') of such taxpayers to enable them to file or modify their tax returns to reflect income variations pursuant to the APA.

4. Exemption to foreign companies engaged in Data Centre services [Section 11 read with Schedule IV]

- i. It is proposed to provide tax exemption to specified foreign companies (engaged in providing cloud services) on their income in India resulting from procuring Data Centre services subject to following conditions:
 - a. Such foreign companies are notified by the Central Government;
 - b. Such foreign companies do not own any physical infrastructure or resources of the specified data centre
 - c. All sales to Indian customers are routed through resellers in India.
- ii. Further, it is proposed to define the scope of Data Centre services and specified Data Centres.
- iii. The proposed tax holiday shall be available upto tax year ending 31 March 2047.

5. Exemptions to certain Non-resident taxpayers [Section 11 read with Schedule IV]

- i. It is proposed to exempt the income of a foreign company resulting from providing capital goods, equipment or tooling to an Indian contract manufacturer for use in an electronics manufacturing unit in India upto the year ending 31 March 2031, subject to conditions.
- ii. It is proposed to exempt the overseas income of a non-resident individual for five consecutive tax years where the non-resident visits India for the first time to render services in India as per a Scheme to be framed by the Central Government in this regard and subject to conditions specified.

IV. Provisions relating to profits and gains of business or profession

1. Minimum Alternate Tax rate and credit set-off [Section 206]

- i. It is proposed to reduce the Minimum Alternate Tax ('MAT') rate from 15% to 14% for companies continuing under the old regime.
- ii. It is further proposed that the tax paid under MAT in the old regime shall be treated as final tax and no MAT credit accumulation shall be allowed after 31 March 2026.

- iii. It is proposed that where domestic companies opt for new tax regime from 1 April 2026, the set-off of brought forward MAT credit accumulated up to 31 March 2026 shall be allowed to the extent of 25% of the tax liability for a tax year.
- iv. In case of foreign companies, there is no change in the MAT credit utilisation mechanism.
- v. It is further proposed that exemption from MAT provisions shall be extended to foreign companies that have opted for the presumptive taxation scheme and are engaged in the business of:
 - a. operation of cruise ships; or
 - b. providing services or technology in India for the purposes of setting up an electronics manufacturing facility or in connection with manufacturing or producing electronic goods, articles or things in India, to a resident company.

V. Capital gains

1. Taxability on buy-back of shares [Sections 2, 7 and 69]

- i. It is proposed to tax the consideration received from buy-back of shares of a company as Capital Gains in the hands of shareholders.

ii. It is further proposed to levy additional income tax where such shares are held by promoters. The effective rates of tax shall be as under:

a. Where promoter is a domestic company

Nature of income	Applicable tax rate	Additional tax rate	Effective tax rate
Short-term capital gains (listed shares)	20%	2%	22%
Long-term capital gains	12.5%	9.5%	22%

b. Where promoter is any other person

Nature of income	Applicable tax rate	Additional tax rate	Effective tax rate
Short-term capital gains (listed shares)	20%	10%	30%
Long-term capital gains	12.5%	17.5%	30%

2. Exemption on redemption of Sovereign Gold Bonds [Section 70]

It is proposed to exempt capital gains tax on redemption of Sovereign Gold Bonds issued under Sovereign Gold Bond Scheme, 2015 and any subsequent Sovereign Gold Bond Scheme. However, it is proposed to restrict the exemption only to those individuals who have held such bonds from the date of the original issue till maturity.

VI. Withholding Taxes

1. TDS on supply of manpower [Sections 393(1) and 402]

The definition of 'work' is proposed to be amended to include the supply of manpower to carry out work under the supplier's supervision and control. Accordingly, on payment for supply of manpower, withholding taxes to be applied as per payment to contractors.

2. No TDS on interest income to co-operative society engaged in banking business [Section 393(4)]

It is proposed that no tax would be deducted on interest income of co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank).

3. No TDS on interest on compensation awarded by Motor Accidents Claims Tribunal [Section 393(4)]

It is proposed that no tax would be deducted on interest on compensation received by an individual from the Motor Accident Claims Tribunal, irrespective of the amount.

4. Filing of declaration electronically to a depository for no tax deduction [Section 393(6)]

It is proposed to enable electronic filing of declaration to the depository for no tax deduction on income from units or dividend from listed securities held with such depository. The proposed amendment will be effective from 1 April 2027.

5. TAN not required in case of purchase of immovable property from a non-resident seller [Section 397]

- i. It is proposed that a resident individual or a Hindu Undivided Family shall not be required to obtain Tax Deduction and Collection Account Number ('TAN') for deposit of taxes deducted at source on payment of consideration for transfer of immovable property by non-resident seller.
- ii. The proposed amendment will be effective from 1 October 2026.

6. Simplifying and streamlining of rates for Tax Collection at Source [Section 394]

The simplifying and streamlining of rates for Tax Collection at Source ('TCS') are as under:

Nature of Receipt	Existing rate	Proposed rate
Sale of alcoholic liquor for human consumption	1%	2%
Sale of tendu leaves	5%	2%
Sale of scrap	1%	2%
Sale of minerals, being coal or lignite or iron ore	1%	2%
Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding INR 1 million (~USD 11,000)	<ul style="list-style-type: none"> 5% for education and medical purposes 20% for other purposes 	<ul style="list-style-type: none"> 2% for education and medical purposes 20% for other purposes
Overseas Tour Packages	<ul style="list-style-type: none"> 5% for amounts upto INR 1 million (~USD 11,000) 20% for amounts exceeding INR 1 million (~USD 11,000) 	2%

7. Binding nature of guidelines issued by the Central Board of Direct Taxes [Section 400]

It is proposed that the guidelines issued by the Central Board of Direct Taxes with the prior approval of the Central Government to remove any difficulty arising in giving effect to TDS/ TCS provisions shall be binding on the Income-tax Authorities, as well as on the person liable to withhold or collect tax.

VII. Other key proposals

1. Rationalisation of Interest Deduction Limits for Self-Occupied Residential Property [Section 22]

To align with the provisions of the Old Act, it is proposed that the aggregate amount of deduction of INR 200,000 (~USD 2,000), for interest on borrowed capital in respect of self-occupied house property shall include interest payable for the period prior to the acquisition or construction of such property.

2. Deduction for expenses of non-life insurance business after appropriate deduction and payment of tax [Section 55 read with Schedule XIV]

It is proposed to provide that companies engaged in the non-life insurance business will be allowed to claim a deduction for expenses disallowed in earlier tax years due to non-deduction of tax, in the tax year in which such tax is subsequently deducted and paid.

3. Expenses to be disallowed against Dividend income or Income from units [Section 93]

It is proposed to disallow any deduction for expenses incurred for earning dividend income or income from units of Mutual Funds or units of specified company.

4. Rationalisation of tax rates and immunity from penalty and prosecution in case of misreporting of income [Sections 195, 440 and 443]

- i. It is proposed to rationalise the taxation of income on account of unexplained credits, unexplained investments, unexplained assets, unexplained expenditure and amount borrowed or repaid through negotiable instruments, hundis, etc. by reducing the applicable tax rate from 60% to 30%.
- ii. It is further proposed to omit the existing penalty provision for the abovementioned income and subsume it under the penalty provisions for under-reporting of income.
- iii. It is further proposed to extend immunity from penalty and prosecution to cases of misreporting of income on payment of an additional amount of 100% of tax.
- iv. It is also proposed to extend similar immunity to cases of unexplained credits/unexplained investment/unexplained assets etc. on payment of an additional amount of 120% of tax.

5. Immunity from penalty and prosecution in case of misreporting of income (Old Act Section 270AA)

It is proposed to extend immunity from penalty and prosecution to cases of misreporting of income on payment of an additional amount of 100% of tax.

6. Rationalising due date for filing return of income [Section 263] (Old Act Section 139)

It is proposed to extend the due date for filing the return of income for taxpayers having income from business or profession, as well as partners of partnership firms, who are not subject to audit under the Old Act or New Act or any other law in force, from 31 July to 31 August.

7. Enhanced timeline for filing revised return along with fee [Sections 263(5) and 428(b)] (Old Act Section 139(5) and Section 234-I introduced)

- i. It is proposed to extend the time limit for filing a revised return of income from nine months to twelve months from the end of the relevant tax year.
- ii. Further, it is proposed that where the return is revised beyond nine months, a prescribed fee would be levied as below:

Total income	Fee Payable
Does not exceed INR 500,000 (~USD 5,000)	INR 1,000 (~USD 10)
Any other case	INR 5,000 (~USD 50)

8. Updated Return [Sections 263, 267 and 439] (Old Act Sections 139, 140B and 270A)

- i. It is proposed to allow taxpayers to file an updated return in cases where loss claimed in the tax return filed within the applicable due date is to be reduced or a scrutiny notice is issued.
- ii. However, for an updated return filed in response to a scrutiny notice, taxpayers must pay an additional 10% tax on the aggregate of tax and interest payable on filing such updated return.
- iii. It is further proposed that income declared in an updated return (with payment of additional tax) shall not form the basis of imposition of penalty under the provisions of the New Act.

9. Clarification on timeline for completion of assessment in certain cases [Sections 275 and 286] (Old Act Sections 144C, 153 and 153B)

- i. It is proposed to clarify that in cases involving draft assessment order, general provisions of timelines for completion of assessment, reassessment or re-computation shall not be applicable to issue final assessment order. Accordingly, it is proposed to clarify that in such cases, the final assessment order shall be issued within the extended timelines specifically provided.

- ii. The above amendments are also proposed to be introduced retrospectively from 1 April 2009 in Sections 144C, 153 and 153B respectively of the Old Act.

10. Clarification on jurisdiction for issuance of notice for reassessment [Section 279] (Old Act Section 147A introduced)

- i. It is proposed to clarify that for reassessment proceedings, the jurisdiction to issue the notice lies with the Jurisdictional Assessing Officer and not the National Faceless Assessment Centre.
- ii. The proposed amendment will be effective from 1 April 2021 under the Old Act.

11. Specified funds exempted from obtaining registration as Non-Profit Organisation [Section 332]

It is proposed to remove the reference to specified funds listed in Schedule VII enabling such funds to qualify as a Non-Profit Organisation ('NPO') and obtain exemptions without the requirement of getting registered under the New Act.

12. NPOs eligible to file belated return of income [Section 349]

It is proposed to allow NPOs to file belated returns of income, aligning with the provisions of the Old Act.

13. Commercial activities by NPOs engaged in advancement of any object of general public utility not classified as specified violation [Section 351]

- i. Section 351 enlists activities as specified violations resulting in cancellation of registration as NPOs.
- ii. To align with the provisions of Old Act, it is proposed that carrying out commercial activities by registered NPOs involved in advancement of any other object of general public utility shall not be categorised as a specified violation.

14. Tax on accreted income in the event of merger of NPO [Sections 352 and 354A]

- i. To align with the provisions of the Old Act, it is proposed to tax accreted income where the registered NPO merges with:
 - a. Any entity other than a registered NPO;
 - b. A registered NPO not having same or similar objects;
 - c. A registered NPO with the same or similar objects but which does not fulfil the conditions of the merger as may be prescribed.

- ii. It is further proposed specifically to exclude NPOs from liability to pay tax on accreted income if the NPO has merged with any other registered NPO having same or similar objects and has fulfilled the prescribed conditions of the merger.

15. Scrutiny orders without Document Identification Numbers not to be deemed as invalid [Section 522] (Old Act Section 292BA introduced)

- i. It is proposed that scrutiny orders will not be treated as invalid merely due to mistakes, defects or omissions related to Document Identification Number so long as there is reference to it in the scrutiny order.
- ii. The proposed amendment is also introduced from 1 October 2019 under the Old Act.

16. Rationalisation of penalties [Sections 427, 428, 446, 447 and 454]

- i. It is proposed to introduce a penalty for failure to furnish information relating to transactions involving crypto-assets, at a rate of INR 200 (~USD 2) per day for the period during which the default continues.
- ii. Further, it is proposed that a penalty of INR 50,000 (~USD 500) shall apply in cases of inaccurate reporting of particulars or failure to comply with the prescribed due-diligence requirements.

- iii. It is proposed to introduce a cap of INR 100,000 (~USD 1,000) for the penalty of INR 1,000 (~USD 10) per day for the delay in furnishing a statement of financial transactions, when such statement is required to be submitted to the income tax authority.
- iv. It is further proposed to levy a fee, instead of a penalty, for delays in filing certain statements or documents. The penalties previously applicable have been replaced by a graded fee structure as under:

Nature of default	Existing penalty	Proposed fee
Delay in furnishing of statement for financial transaction	INR 500 (~USD 5) per day	INR 200 (~USD 2) per day, maximum INR 100,000
Failure to get accounts audited and furnish the audit report	Lower of 0.5% of sales/ gross receipts or INR 150,000 (~USD 1,500)	INR 75,000 (~USD 800) for a delay up to one month INR 150,000 (~USD 1,500) for a delay beyond one month
Failure to furnish the report from an accountant in respect of international/ specified domestic transactions	INR 100,000 (~USD 1,000)	INR 50,000 (~USD 500) for delay up to one month INR 100,000 (~USD 1,000) for a delay beyond one month

17. Imposition of penalty in case of under-reporting and misreporting of income [Sections 379, 411 and 471] (Old Act Sections 220, 245MA and 274)

- i. It is proposed to provide that the penalty for under-reporting or misreporting of income shall not be levied without giving an opportunity of being heard, by way of a show cause notice.
- ii. It is proposed that such penalty, if levied, shall form part of the scrutiny order itself.
- iii. It is proposed that interest for non-payment of such penalty shall not be charged up to the date of conclusion of proceedings before the Appellate Authority. Further, in cases where the directions of the Dispute Resolution Panel have been received, interest shall not be charged up to the date of appeal proceedings before the Income Tax Appellate Tribunal.
- iv. It is proposed that the Dispute Resolution Committee shall also have the powers to waive or reduce, any penalty imposed or penalty imposable under the New Act.

18. Rationalisation of various prosecution provisions [Sections 475, 476, 477, 478 and 479] (Old Act Sections 276, 276B, 276BB, 276C and 276CC)

- i. It is proposed to rationalise the prosecution provisions for certain offences such as failure to deposit withholding tax, wilful attempt to evade tax, failure to furnish return of income.

- ii. In case of the above offences, it is proposed that where the amount of tax involved is upto INR 1 million (~ USD 11,100), only a fine will apply.
- iii. Further if the amount of tax involved is more than INR 1 million (~ USD 11,100) but less than INR 5 million (~ USD 55,500), simple imprisonment up to six months or fine or both may be levied.
- iv. If the amount of tax involved exceeds INR 5 million (~ USD 55,500), simple imprisonment upto two years or fine or both may be imposed.
- v. In case of fraudulent removal, concealment, transfer or delivery of any property to any person with a view to prevent tax recovery, it is proposed to reduce the punishment to simple imprisonment upto two years along with fine.

19. Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

- i. The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 is proposed to be introduced to enable specified taxpayers to disclose foreign assets which have hitherto not been disclosed, subject to filing the declaration in the specified format and payment of additional taxes as under:

Type of assets or income	Amount payable
Undisclosed asset located outside India or undisclosed foreign income if the aggregate value of both does not exceed INR 10 million (~USD 110,000)	Aggregate of- (i) Tax at 30% of the value of undisclosed asset located outside India on 31 March 2026 (ii) Tax at 30% of undisclosed foreign income (iii) Amount equal to the total of amounts determined at (i) and (ii) above
Undisclosed asset located outside India acquired from income accruing or arising outside India when the taxpayer was a non-resident and the value of the asset does not exceed INR 50 million (~USD 555,000)	Fee of INR 100,000 (~USD 1,100)
Undisclosed asset located outside India acquired from income which has been offered to tax in India and the value of the asset does not exceed INR 50 million (~USD 555,000)	Fee of INR 100,000 (~USD 1,100)

- ii. The income or amount of investment in asset, which has been declared as above shall not be included in the total income of the taxpayer for any FY under the Old Act or the Black Money (Undisclosed Foreign Income and Assets) Act, 2015, once the amount computed has been paid by the taxpayer.
- iii. The amount payable by the taxpayer will be communicated electronically within one month from the end of the month in which the above declaration is filed. The said amount will need to be paid by the taxpayer within two months from the end of the month in which the order communicating the payable amount is received by the taxpayer.
- iv. A taxpayer who files a declaration and makes the payment of tax/fee as per the Scheme will be granted immunity from the levy of any further tax or penalty as well as prosecution provisions under the Black Money (Undisclosed Foreign Income and Assets) Act, 2015 in respect of income or assets disclosed for the FY ending 31 March 2026 or any preceding years.
- v. The date from which the above Scheme will take effect will be notified in due course.

20. Revision in rates of Securities Transaction Tax on futures and options [Finance (No. 2) Act, 2004]

It is proposed to amend the rate of Securities Transaction Tax ('STT') on futures and options as under:

Taxable Securities Transactions	Existing rates	Proposed rates
Sale of an option in securities	0.10%	0.15%
Sale of an option in securities, when option is exercised	0.125%	0.15%
Sale of a future in securities	0.02%	0.05%

21. Exemption of interest income on compensation amount awarded by Motor Accident Claims Tribunal [Section 11 read with Schedule III]

It is proposed that interest on compensation awarded by Motor Accident Claims Tribunal to an individual or his legal heir shall be exempt from tax.

22. Change in due date for claiming deduction for employees' contribution [Section 29]

It is proposed that for claiming a deduction related to the employees' contribution to specified welfare funds including provident fund, by the employer, the deduction would be allowed if such contributions are credited to the account of the employee by the due date of filing the return of income.

Indirect taxes

This section summarises some of the significant indirect tax proposals announced in Budget 2026-27.

I. Customs Duty

- i. It is proposed to insert provisions in the Customs Act, 1962 ('Customs Act') with regard to fishing and fishing related activities by an Indian Flagged Fishing Vessel. Fish harvested beyond territorial waters of India may be brought into India free of duty and fish landed at a foreign port will be treated as export of goods in such manner as may be provided by rules to be made in this regard.
- ii. It is proposed to do away with the provision for permission of the authorised officer to transfer goods between warehouses. The owner of any goods in bonded warehouse may now remove them from one warehouse to another, subject to such conditions as may be prescribed.
- iii. It is proposed to extend the validity period of Advance Rulings from 3 years to 5 years. The validity of existing rulings may be extended upon request by the applicant.

- iv. A single integrated platform, Customs Integrated System, is proposed to be introduced in two years for all Customs processes.
- v. New tariff lines have been created in Customs Tariff to be effective from 1 May 2026, some of which are as follows:

Name of Item	Proposed rate
Krill	15%
Berries	5% to 10%
Rayon Grade Wood Pulp	2.5%
Tungsten Bars & Rods	5%
Refrigerated Containers	5%
Battery Separators	5%
Pecan Nuts	30%

- vi. Certain items for which Basic Customs Duty is proposed to be reduced with effect from 2 February 2026, to decrease the input costs, deepen value addition, promote export competitiveness, correct inverted duty structure and boost domestic manufacturing are as follows:

Name of Item	Existing rate	Proposed rate
Renewable and Nuclear Energy Components	Varying rates	NIL
Components used in aircraft manufacture	Varying rates	NIL
Electronic Components for use in microwave oven	Varying rates	NIL
Raw materials used for manufacture of parts of aircraft, components or parts of aircraft including engines when imported by PSU	Varying rates	NIL
Certain drugs and medicines	Varying rates	NIL
Dutiable goods for personal use (with effect from 1 April 2026)	10% / 20%	10%

vii. Penalty for non-payment of duty is proposed to be referred to as a charge for non-payment of duty by making an amendment in the relevant provision in the Customs Act.

II. Special Economic Zones

A special one-time measure to facilitate sales by eligible manufacturing units in Special Economic Zones to Domestic Tariff Area units at a concessional rate of duty is proposed. The quantity of such sales will be limited to a prescribed proportion of their exports.

III. Goods and Services Tax

Amendments carried out through the Finance Bill, 2026 in the Central Goods and Services Tax Act, 2017 ('CGST Act') and Integrated Goods and Services Tax Act, 2017 ('IGST Act') will come into effect from the date when the same will be notified, except where specified below, with the corresponding amendments to the similar Acts passed by the States & Union territories with legislature.

1. Determination of place of supply in case of intermediary services

In case of import or export of service, it is proposed that the place of supply of intermediary services is to be determined as per the default rule for determining the place of supply i.e. location of the recipient of service, by deleting the specific supplier-based place of supply provision hitherto applicable to intermediary services. This will benefit exporters of services who were denied the benefit of export of services and were required to pay Goods and Service Tax on supplies made to overseas recipients.

2. Simplification in condition relating to exclusion of post-sale discount from the value of taxable supply

- i. It is proposed to do away with the condition of linking of pre-existing agreement with post sale discount for the purpose of determining the value of taxable supply. A credit note issued by the supplier for passing on the post-sale discount in accordance with law, coupled with the reduction of input tax credit

attributable to such discount by the recipient of supply, shall be eligible for exclusion from the value of taxable supplies.

- ii. Further, provisions relating to issuance of credit notes are proposed to be amended so as to include reference to Section 15 of the CGST Act.

3. Provisional refund benefit provisions extended to refund arising out of inverted duty structure

- i. It is proposed that the benefit of provisional refund of unutilised input tax credit will be extended to refunds arising out of inverted duty structure.
- ii. Further, the condition relating to minimum threshold of INR 1,000 for claiming refund is proposed to be withdrawn in case of a refund on account of export of goods on payment of tax.

4. An authority is constituted under the Act to hear appeals pertaining to Advance Rulings

It is proposed that pending the constitution of the National Appellate Authority for Advance Rulings, the Central Government is to be empowered to notify any existing authority constituted under any law for the time being in force, including a Tribunal, to hear appeals arising out of a question referred to in Section 97(2) of the CGST Act. This provision is proposed to come into force from 1 April 2026.

Abbreviations

AE	Associated Enterprises	MAT	Minimum Alternate Tax
APA	Advance Pricing Agreements	MSMEs	Micro, Small and Medium Enterprises
AVGC	Animation, Visual Effects, Gaming, and Comics	New Act	The Income-tax Act, 2025
CGST	Central Goods and Services Tax	NPO	Non-Profit Organisation
Customs Act	Customs Act, 1962	Old Act	The Income-tax Act, 1961
FDI	Foreign Direct Investment	STT	Securities Transaction Tax
FM	Finance Minister	TAN	Tax Deduction and Collection Account Number
FY	Financial Year	TCS	Tax Collected at Source
GDP	Gross Domestic Product	TDS	Tax Deducted at Source
GST	Goods and Services Tax	TP	Transfer Pricing
IFSC	International Financial Services Centre	TPO	Transfer Pricing Officer
INR	Indian Rupee	TReDS	Trade Receivables Discounting System
IGST	Integrated Goods and Services Tax	USD	United States Dollar

Exchange Rate: USD 1 = INR 90

Notes

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About JMP Advisors

JMP Advisors is a leading professional services firm that offers advisory, tax and regulatory services. The vision of JMP Advisors is to be 'The Most Admired Professional Services Firm in India'. It aims to be the best as measured by the quality of its people and service to clients. The firm has a merit based culture and operates to the highest standards of professionalism, ethics and integrity. Jairaj (Jai) Purandare, the Founder Chairman has over four decades of experience in tax and business advisory matters and is an authority on tax and regulation in India. Jai was Regional Managing Partner, Chairman - Tax and Country Leader - Markets & Industries of PricewaterhouseCoopers India. Earlier, Jai was Chairman of Ernst & Young India and Country Head of the Tax & Business Advisory practice of Andersen India.

JMP Advisors offers advice in international taxation, domestic taxation, transfer pricing, mergers and acquisitions, Goods and Services Tax (GST), business laws and exchange control regulations and foreign investment consulting. We specialize in fiscal strategy, policy foresight and advocacy matters and are trusted advisors to high networth families. Our team at JMP Advisors takes pride in being the best at what matters most to clients - technical expertise, innovative solutions, consistent, high quality service, reliability and ease of doing business.

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