

The Union Budget 2026

Proposed Direct Tax Reforms



The Union Budget 2026–27, presented today before Parliament by the Union Minister of Finance and Corporate Affairs, Smt. Nirmala Sitharaman. Marking her 9th consecutive Budget presentation, the Finance Minister reiterates the Government's 'kartavya' to sustain the momentum of structural reforms and to further strengthen the foundations of the Indian economy. The Budget sets the fiscal deficit target for 2026–27 at around 4.3 per cent of GDP, with an increased capital expenditure aimed at boosting public investment and job creation. In line with this commitment, the Finance Minister has announced a range of direct tax reforms aimed at simplifying the tax framework, improving clarity, and encouraging voluntary and timely compliance by taxpayers.



The Income Tax Act, 2025



The Income Tax Act, 2025, will come into effect from 1 April 2026. The proposed legislation seeks to replace the existing Income-tax Act, 1961, with a more streamlined and contemporary statute that is easier to understand, interpret, and administer.



Simplified Income Tax Rules and return forms for providing adequate time for taxpayers and stakeholders to familiarise themselves with the revised provisions.



The return forms have been redesigned to be more user-friendly, to enable individual taxpayers to comply with the law with minimal difficulty.

Key Aspects under the Rates of Tax for Financial Year 2026-2027

For Assessment Year 2026–27, individuals, Hindu Undivided Families, Associations of Persons (other than co-operative societies), Bodies of Individuals, whether incorporated or not, and artificial juridical persons referred to in section 2(31)(vii) are required to pay tax on their total income at the rates specified below.

Sr. No.	Total income	Rate of Tax
01	Upto ₹ 4,00,000	Nil
02	From ₹ 4,00,001 to ₹ 8,00,000	5%
03	From ₹ 8,00,001 to ₹ 12,00,000	10%
04	From ₹ 12,00,001 to ₹ 16,00,000	15%
05	From ₹ 16,00,001 to ₹ 20,00,000	20%
06	From ₹ 20,00,001 to ₹ 24,00,000	25%
07	Above ₹ 24,00,000	30%

For tax year 2026-27, “Health and Education Cess on income-tax” is to be levied at the rate of 4% on the amount of income-tax so computed, inclusive of surcharge wherever applicable, in all cases. No marginal relief shall be available in respect of such cess.

For sections specifying the rate of TDS, tax shall continue to be deducted as per the relevant provisions of the Act, with rates remaining the same as those in Part II of the First Schedule to the Finance Act, 2025, for FY 2025–26.

KSK Comments:

- The Budget maintains complete continuity in the personal income-tax rate architecture. The continuation of the Health and Education Cess at 4% has a compounding effect on effective tax burden.
- The optional retention of the old tax regime preserves choice for taxpayers with substantial exemptions. However, it is intended to remain a transitional alternative rather than the preferred long-term structure.

Ease of Living



Any interest awarded by the Motor Accident Claims Tribunal to a natural person shall be exempt from income tax, and no tax shall be deducted at source on such interest.



Reduction of TCS rate on the sale of overseas tour program package from the current 5% and 20 % to 2 % without any stipulation of amount.



Reduction of TCS rate for pursuing education and for medical purposes under the Liberalized Remittance Scheme (LRS) from 5% to 2 %.



Supply of manpower services is proposed to be explicitly included under payments to contractors for TDS purposes, with tax deducted at 1% or 2% only.



A scheme for small taxpayers is proposed to allow a rule-based automated process to obtain lower or nil deduction certificates, without filing an application with the assessing officer.



TDS on the sale of immovable property by a non-resident is proposed to be deducted and deposited through the resident buyer's PAN-based challan instead of requiring TAN.

A one-time six-month foreign asset disclosure scheme is proposed for small taxpayers, including students, young professionals, tech employees, and relocated NRIs. It covers:

- (A) Those who did not disclose overseas income/assets, and
- (B) Those who disclosed income/paid tax but not the asset acquired.

Category A: Undisclosed income/assets up to ₹1 crore can be regularised by paying 30% tax and 30% additional tax, with immunity from prosecution.

Category B: Assets up to ₹5 crore can be regularised by paying lakh, with immunity from penalty and prosecution.

Rationalising due dates for filing of return of Income:

The due date for filing income-tax returns is proposed to be extended from 31 July to 31 August for taxpayers with business or professional income whose accounts are not required to be audited, partners of such firms, and their spouses, where section 10 applies. For individuals filing ITR-1 or ITR-2, the due date will continue to be 31 July. The amendments proposed in section 263(1)(c) of the Act are as under:

Sr. No.	Person	Conditions	Due Date
1	Assessee, including the partners of the firm or the spouse of such partner (if section 10 applies to such spouse).	Where the provisions of section 172 apply	30th November.
2	(i) Company; (ii) Assessee (other than a company) whose accounts are required to be audited under this Act or under any other law in force; (iii) Partner of a firm whose accounts are required to be audited under this Act or under any other law in force; or the spouse of such partner (if section 10 applies to such spouse).	Where the provisions of section 172 do not apply	31st October.
3	(i) Assessee having income from profits and gains of business or profession whose accounts are not required to be audited under this Act or under any other law in force; (ii) Partner of a firm whose accounts are not required to be audited under this Act or under any other law in force or the spouse of such partner (if section 10 applies to such spouse).	As above	31st August.
4	Any other assessee	--	31st July.

Extending the period of filing revised return:

The time limit for filing a revised return is proposed to be extended from 9 to 12 months from the end of the relevant tax year, allowing belated filers to revise their returns.

01

Section 263(5) will be amended to reflect this, with a fee under section 428(b) for returns filed after 9 months, effective 1 April 2026 for Tax Year 2026–27 onwards.

02

Corresponding changes are proposed in section 139(5) of the Income-tax Act, 1961, with a fee under section 234I, effective 1 March 2026 for Assessment Year 2026–27.

03

Scope of filing of updated return in the case of reduction of losses:

Section 263(6) is proposed to be amended to allow the filing of an updated return where the taxpayer reduces the loss claimed in the original return filed within the due date.

These amendments in the Income- tax Act, 2025, shall take effect from 1 April 2026, with corresponding amendments in the Income-tax Act, 1961, effective from 1 March 2026 to ensure alignment.

Allowing the filing of updated return after issuance of notice of reassessment:

Updated returns may be allowed even after reassessment proceedings under section 280 to reduce litigation.

01

6
SECTION
280

SECTION
263 & 280

02

Section 263 is proposed to permit filing an updated return within the period specified in the notice under section 280, barring any other mode of filing.

Section 267 is proposed to levy an additional 10% tax on the aggregate of tax and interest for such updated returns.

03

SECTION
267

SECTION
439

04

Income on which additional tax is paid under this provision will not attract penalties under section 439.

These amendments will take effect from 1 April 2026 for Tax Year 2026–27 and subsequent years, with corresponding changes proposed in the Income-tax Act, 1961.

05

ACT
1961

Rationalizing Penalty & Prosecution:

The Union Finance Minister proposes to rationalise the prosecution framework under the Income Tax Act, balancing deterrence for some serious offences.

Assessment and penalty proceedings will be integrated into a common order. No interest will be charged on penalty amounts during an appeal to the first appellate authority. Pre-payment is reduced from 20% to 10%, calculated only on the core tax demand.

Taxpayers may update their returns even after reassessment, paying an additional 10% tax on top of the applicable rate, with the updated return being used in proceedings.

Immunity is extended to misreporting, subject to payment of 100% of tax due as additional income tax.

Penalties for technical defaults, such as failure to audit accounts, non-filing of transfer pricing reports, or financial statements, will be converted into a fee. Minor offences and non-production of accounts, and TDS defaults on in-kind payments, will attract fines only.

Remaining prosecutions will be graded by severity, with simple imprisonment capped at 2 years and courts empowered to convert imprisonment into fines.

Taxpayers with undisclosed non-immovable foreign assets below INR 20 lakh will also be granted immunity from prosecution, retrospectively from 1 October 2024.

IT Services:

The IT services are proposed to be clubbed under a single category, 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 300 crore rupees to 2,000 crore rupees.

Safe harbour for IT services will be approved via an automated process without tax officer review and can be continued for up to five years.

The Unilateral APA process will be fast-tracked to two years, extendable by six months, with the modified return facility extended to associated entities.

Attracting global business and investment:



INVESTMENTS

A tax holiday till 2047 is proposed to any foreign company that provides cloud services to customers globally by using data centre services from India. It will, however, need to provide services to Indian customers through an Indian reseller entity.

Safe harbour of 15 % on cost in case the company providing data centre services from India is a related entity.

Safe harbour to non-residents for component warehousing in a bonded warehouse at a profit margin of 2% of the invoice value. The resultant tax of about 0.7 % will be much lower than in competing jurisdictions.

Exemption from income tax for 5 years to any non-resident who provides capital goods, equipment, or tooling to any toll manufacturer in a bonded zone.

Exemption to the global (non-India-sourced) income of a non-resident expert, for a stay period of 5 years under the notified schemes.

Exemption from Minimum Alternate Tax (MAT) to all non-residents who pay tax on a presumptive basis.

Tax administration:

01

The Finance Minister proposes to constitute a Joint Committee of the Ministry of Corporate Affairs and the Central Board of Direct Taxes for incorporating the requirements of Income Computation and Disclosure Standards (ICDS) in the Indian Accounting Standards (IndAS). The separate accounting requirement based on ICDS will be done away with from the tax year 2027-28.

02

The Budget further proposes to rationalize the definition of accountant for the purposes of Safe Harbour Rules in order to support the Prime Minister's vision of home-grown accounting and advisory firms to become global leaders.



Other Tax Proposals:



a) Rationalisation of TCS rates:

Section 394(1) prescribes Tax Collection at Source (TCS) rates on various transactions. The following changes are proposed in section 394(1):

Sl. No.	Nature of receipt	Current TCS rate	Proposed TCS rate	Other change
1	Sale of alcoholic liquor for human consumption	1%	2%	–
2	Sale of tendu leaves	5%	2%	–
4	Sale of scrap	1%	2%	–
5	Sale of coal, lignite, iron ore	1%	2%	–
7	LRS remittances for education/medical above ₹10 lakh	5%	2%	–
8	Sale of overseas tour programme package	5% / 20%	2%	Threshold removed; 2% applies irrespective of amount.

* All amendments take effect from 1 April 2026 for Tax Year 2026-27 onwards.

Other Tax Proposals:

b) Clarification on the JAO/ FAO controversy

The law now clearly states that only the jurisdictional Assessing Officer (and not the National Faceless Assessment Centre or its units) can conduct pre-assessment enquiries and issue notices under sections 148A and 148. The change applies retrospectively from 1 April 2021 under the 1961 Act and prospectively under the 2025 Act from 1 April 2026.

KSK Comments:

This clarification is a clear legislative response to the Bombay High Court's decision in Hexaware Technologies Ltd., which held that reassessment notices could not be issued by faceless assessment units lacking jurisdiction. By retrospectively redefining the "Assessing Officer" to exclude NaFAC and its units, the amendment effectively neutralises Hexaware decision. Although framed as a clarification, the provision impacts concluded proceedings. Such legislative override raises concerns on legal certainty, particularly when the issue is already pending consideration before the Supreme Court.

c) DIN related defects in Assessment Orders

The amendment clarifies that an assessment will not be invalid merely due to errors, defects or omissions in quoting the Document Identification Number (DIN), so long as the assessment order is referenced by a computer-generated DIN in any manner. This clarification overrides judicial decisions that annulled assessments for technical DIN-related lapses, despite substantive compliance. The change applies retrospectively from 1 October 2019 under the Income-tax Act, 1961, and prospectively under the Income-tax Act, 2025 from 1 April 2026.

KSK Comments:

This is a direct legislative response to High Court decisions that treated DIN-related lapses as fatal to assessments, notwithstanding Section 292B. The retrospective validation effectively nullifies taxpayer victories obtained on procedural safeguards introduced by the CBDT itself.



Other Tax Proposals:

d) Clarification on time limits under Section 144C (DRP Procedure)

The amendment clarifies that time limits under sections 153 and 153B apply only up to the draft assessment stage, while the finalisation of assessments under section 144C is governed exclusively by the timelines prescribed in section 144C(4) and 144C(13). The clarification applies retrospectively from 1 April 2009 (section 153) and 1 October 2009 (section 153B).

KSK Comments:

This clarification resolves conflicting judicial interpretations, including a split verdict of the Supreme Court, by affirming that the one-month period post acceptance of draft order or receipt of DRP directions operates notwithstanding sections 153 and 153B.

e) Clarification on computation of 60-day period for TPO Orders (Section 92CA)

The amendment clarifies the method of computing the 60-day period within which the Transfer Pricing Officer (TPO) must pass an order under section 92CA(3A). It expressly provides that the date of limitation for completing the assessment under sections 153 or 153B is to be included while calculating the 60-day period.

KSK Comments:

This clarification addresses adverse judicial rulings that excluded the limitation date and invalidated assessments despite substantive compliance. The amendment applies retrospectively from 1 June 2007.

f) Penalty for non-compliance in reporting crypto asset transactions

To enforce compliance with reporting obligations relating to crypto-asset transactions. A daily penalty of Rs. 200 is proposed for failure to furnish the prescribed statement, while a fixed penalty of Rs. 50,000 is prescribed for furnishing inaccurate particulars and failing to correct such inaccuracies. These penalties will apply from 1 April 2026.

g) Extension of Tonnage Tax Scheme to Inland Vessels

The Bill carries out consequential amendments in Chapter XIII-G to operationalise the extension of the tonnage tax regime to inland vessels.

Other Tax Proposals:

h) Exemption for Sovereign Gold Bonds (SGBs)

The law currently exempts capital gains arising on redemption of Sovereign Gold Bonds (SGBs) issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015. Ambiguity existed on whether the exemption applies uniformly to all holders, including those who acquired bonds in the secondary market. To remove this ambiguity, it is clarified that capital gains exemption will be available only to investors who subscribe to the Sovereign Gold Bonds at the time of original issue and continue to hold them until maturity. Investors who acquire SGBs later through transfer or secondary market transactions will not be eligible. The amendment will apply from 1 April 2026, i.e., from Tax Year 2026–27 onwards.

KSK Comments:

While the amendment brings clarity, it also reduces post-issue liquidity attractiveness of SGBs from a tax perspective.

i) Increase in Securities Transaction Tax (STT)

Given the sharp rise in derivatives (futures and options) trading, the Government has decided to increase STT rates in a calibrated manner to discourage excessive speculation.

Revised STT rates (effective 1 April 2026):

- Sale of option (premium-based): 0.1% → 0.15%
- Sale of option (on exercise): 0.125% → 0.15%
- Sale of futures: 0.02% → 0.05%

The increase applies only to F&O transactions entered into on or after 1 April 2026.

j) Rationalisation of taxation on buy back of shares

Under the existing law, buy-back proceeds received by shareholders are taxed as dividend income, while the cost of shares is allowed separately as a capital loss, leading to complexity and interpretational disputes. The amendment changes this framework by taxing buy-back proceeds as capital gains, aligning buy-backs with normal share sale taxation principles.