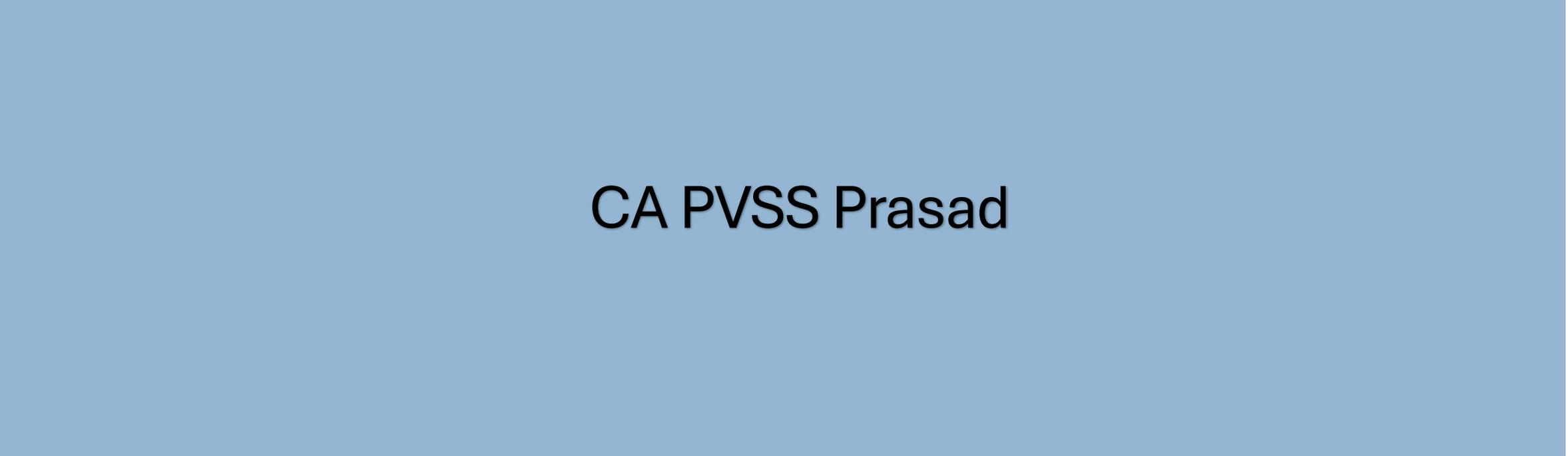




UNION BUDGET 2026-27: DIRECT TAX PROPOSALS

2ND FEBRUARY, HYDERABAD, FTCCI



CA PVSS Prasad

SEC. 166 (ITA 2025) REFERENCE TO TRANSFER PRICING OFFICER. (SEC. 92CA ITA 1961) [CLAUSE 4]

■ Clarification inserted on TPO Order Timeline:

Effective retrospectively from 1st June 2007

Limitation Expiry Date	TPO Order Deadline
March 31 (Non-Leap Year)	Up to Jan 30 of that year
March 31 (Leap Year)	Up to Jan 31 of that year
Dec 31 (Any Year)	Up to Nov 1 of that year

SEC. 263(ITA 2025) - RETURN OF INCOME (SEC 139 ITA 1961)

[CLAUSE 5]

■ Existing Provision:

Under Sec. 139(1) of the Income-tax Act, 1961 (pre-2026 amendments), non-tax audit taxpayers—such as salaried individuals, HUFs, and others without business/profession income requiring audit under Sec. 44AB—had until July 31 of the relevant assessment year to file their returns.

■ Revised Proposal:

The Finance Bill 2026 retains July 31 for simple non-audit individual cases (e.g., salaried employees using ITR-1/ITR-2) but extends it to August 31 for non-audit business cases, AOPs/BOIs, and certain trusts, aligning with the Income-tax Act, 2025 rollout for AY 2026-27.

SEC. 263(ITA 2025) - RETURN OF INCOME (SEC 139 ITA 1961)

[CLAUSE 5]

■ Existing Provision:

*If any person, having furnished a return under sub-section (1) or sub-section (4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time before **three months prior** to the end of the relevant assessment year or before the completion of the assessment, whichever is earlier.*

■ Revised Proposal:

*If any person, having furnished a return under sub-section (1) or sub-section (4), discovers any omission or any wrong statement therein, he may, subject to the provisions of section 234-I, furnish a revised return at any time before the **end** of the relevant assessment year or before the completion of the assessment, whichever is earlier*

■ Conclusion:

Extends the time limit for filing revised returns under Sec. 139(5) from December 31 to March 31 of the assessment year, subject to a nominal fee payment.

SEC. 263 (ITA 2025) - RETURN OF INCOME (SEC 139 ITA 1961)

[CLAUSE 5]

■ Existing Provision:

any proceeding for assessment or reassessment or recomputation or revision of income under this Act is pending or has been completed for the relevant assessment year in his case;

■ Revised Proposal:

Inclusion of “except Updated return may be furnished in pursuance of s.148 notice within specified period; assessee precluded from filing return in any other manner under that notice.”

■ Conclusion:

ITR-U completely barred if proceedings pending/completed in the existing provisions- now being allowed only as against sec.148 notice.

■ Inclusion of Additional proviso to the ITA 1961,

“Provided also that an updated return may be furnished by a person for the relevant assessment year in pursuance of a notice under Sec. 148 within such period as specified in the said notice and in such a case, the assessee shall be precluded from filing return in pursuance of the said notice in any other manner”

SEC. 263 (ITA 2025) - RETURN OF INCOME (SEC 139 ITA 1961)

[CLAUSE 5]

- **Existing Provision:**

Allowed ITR-U only if timely filed loss return converts into income.

- **Revised Proposal:**

ITR-U permitted if it results in income or even if it reduces the loss.

- **Conclusion:**

Loss declarants restricted to file profit returns only-now giving a flexibility to correct/reduce losses.

SEC. 267(ITA 2025) - TAX ON UPDATED RETURN (SEC. 140B ITA 1961) [CLAUSE 6]

- **Additional provision inserted:**

*Where an updated return is filed in pursuance of a notice issued under Sec. 148 within the period specified in the said notice, the additional income-tax payable under sub-section (3) shall be increased by a further **sum of ten per cent. of the aggregate of tax and interest payable**, as determined in sub-section (1) or sub-section (2), as the case may be.”*

SEC. 275 & 286 (ITA 2025) CLARIFYING TIME-LIMIT FOR COMPLETION OF ASSESSMENT UNDER SEC. 144C [153 AND 153B OF ITA1961]

[CLAUSE 7, 9, 10]

■ Existing provision (Interpretation):

Taxpayers and various High Courts (e.g., *Roca Bathroom Products*, *Shelf Drilling*) argued that the entire assessment process—including the Dispute Resolution Panel (DRP) proceedings—must be completed within the outer time limit prescribed under **Sec. 153** (General Assessment) or **Sec. 153B** (Search Assessment).

■ New proposal (Clarification)

It is now explicitly clarified that if the **Draft Assessment Order** is issued within the Sec. 153/153B limits, the subsequent time taken to finalize the order is **exclusively governed** by Sec. 144C. The general outer limits of Sec. 153 no longer apply once the DRP process is triggered.

[275 - Effective from 1st April 2009]

[286 – Effective from 1st October 2009]

▪ The Scenario

Assume a case for Assessment Year (AY) 2022-23 where the general deadline under Sec. 153 to complete the assessment is March 31, 2024.

▪ Timeline

- March 15, 2024: The Assessing Officer (AO) forwards a Draft Assessment Order to the taxpayer. (Note: This is within the general deadline).
- April - September 2024: The taxpayer files objections with the DRP; the DRP hears the case and issues directions.
- October 15, 2024: The AO passes the Final Assessment Order based on those DRP directions.

▪ Under the "Existing" Interpretation (The Old View):

The taxpayer would go to court and argue that since the Final Order was passed in October 2024 (which is past the March 31, 2024 deadline), the entire assessment is Time-Barred and void. **Many High Courts agreed with this, and the tax demand would be quashed.**

▪ Under the "New" Provision (The Amendment):

The law now says: "Did you issue the Draft Order before March 31, 2024? Yes. Okay, then Sec. 153 is satisfied." The AO now has a separate, protected "clock" under Sec. 144C to finish the final order. The October 15 final order is now legally valid and cannot be challenged on the basis of the March deadline.

SEC. 279 (ITA 2025) ASSESSING OFFICER FOR PURPOSES OF SEC. 280 AND 281 (148 AND 148A OF ITA 1961) [CLAUSE 8]

■ Existing provision:

The notices/order u/s. 148/280 and 148A/281 shall be issued by the National Faceless Assessment Centre not the Assessing Officer. All communications with tax payer are carried out by the NFAC

Various High Courts have been expressed divergent views in favour of the revenue and in favour of the assessee.

■ New proposal:

Accordingly, it is proposed to clarify in the Income-tax Act, 1961/2025 that notwithstanding anything contained in any judgment, order or decree of court, the Assessing Officer for the purposes of Sec. 148/280 and Sec. 148A/281 shall mean and shall always be deemed to have meant **Assessing Officer** other than the National Faceless Assessment Centre or any of its assessment units

New Sec. 147A is being inserted w.e.f 1st April 2021

SEC. 220, 245MA & 270A (ITA 2025) IMPOSITION OF PENALTY FOR UNDER-REPORTING OR MISREPORTING OF INCOME WITHIN ASSESSMENT ORDER

[CLAUSE 11, 13 & 14]

■ **Insertion of new proviso u/s. 220(2):**

Interest u/s. 220(2) shall be charged on demand of penalty levied u/s. 270A only after passing the:

- CIT Order u/s. 250
- Tribunal Order u/s. 254 [for appeal against DRP directions].

Consequential amendment is also proposed in Sec. 245MA,

■ **Insertion of new sub-section (11A) u/s. 270A:**

- Where additional income-tax is paid u/ss 140B(3A), such income on additional tax paid shall not be part of the income imposing penalty under this Sec.

SEC. 234 – 1 (ITA 2025) FEE FURNISHING REVISED RETURN INCOME. [CLAUSE 12]

- Any person furnishes a ROI u/s. 139(5), beyond 9 months but before 12 months [Jan – March], he shall pay a fees of
 - ₹1000 – Total income does not exceed 5 lakh rupees
 - ₹5000 – Total income exceeds 5 lakh rupees.

SEC. 440(ITA 2025) IMMUNITY FROM IMPOSITION OF PENALTY. (270AA ITA 1961) [CLAUSE 15]

1. Assessee may make an application to AO to grant immunity from penalty u/s. 270A and initiation of the proceedings u/s. 276C or 276CC, if he fulfils the following conditions:
 - a) Tax and interest paid as per the order u/s. 143(3) within the prescribe time u/s. 156.
 - b) Additional income tax has been paid amounting to 100% of the amount tax payable on under-reported income within the prescribed time.
 - c) No appeal has been filed against the order u/s. 143(3)
2. Assessee may make an application within one month from the end of the month in which the order referred above clause received by the assessee
3. AO shall on fulfilment of the above conditions, grant immunity or imposition
- 3A. No immunity shall be granted where any proceedings initiated under chapter XXII

SEC. 271 (ITA 2025) PENALTY PROCEDURE (SEC. 274 ITA 1961)

[CLAUSE 16]

- **Mandatory Show Cause Notice**
 - **The Change:** Formalizes the "reasonable opportunity of being heard."
 - **The Requirement:** Authorities must now issue a specific Show Cause Notice (SCN) before imposing any penalty.
- For assessments/reassessments (under Sec 143, 144C, or 147) made on or after April 1, 2027, the penalty under Sec. 270A will now be part of the draft or final assessment order itself, rather than a separate, subsequent proceeding.
- **Simplified Approval Process**
 - **Joint Commissioner Approval:** If a Joint Commissioner approves the assessment or reassessment order, that approval automatically covers the penalty under Sec. 270A.
 - No separate approval for the penalty portion is required.

PROSECUTION DECRIMINALISATION (SEC. 473–485, 494 UNDER ITA 2025; 275A–280 ITA 1961) - [CLAUSE 17 TO 25 AND CLAUSE 93 TO 105]

Nature of Change	Details	Effective From
Imprisonment type	Changed from rigorous imprisonment to simple imprisonment across all offences	1-4-2026 (Sec. 473-485, 494 of 2025 Act effective from 1-4-2026; Sec. 275A-280 of 1961 Act effective from 1-3-2026)
Maximum term reduced	Max imprisonment: 2 years (earlier 7 years); subsequent offences: 3 years (earlier 7)	Same as above
Graded thresholds	Prosecution triggered only if: (i) Tax evaded/sought to be evaded > Rs 50 lakh: imprisonment up to 2 years or fine or both; (ii) > Rs 10 lakh but ≤ Rs 50 lakh: imprisonment up to 6 months or fine or both; (iii) ≤ Rs 10 lakh: fine only (no imprisonment)	Same as above

SEC. 473–485, 494 ITA 2025 PROSECUTION DECRIMINALISATION (275A–280 ITA 1961) [CLAUSE 17 TO 25 AND CLAUSE 93 TO 105]

Nature of Change	Details	Effective From
Full decriminalisation cases	(i) TDS default for winnings from lottery/crossword/benefits or perquisites (Sec. 476(1)(b)(i) & (ii)); (ii) Failure to produce books u/s 268(1) (Sec. 481 partially decriminalised)	Same as above
Winnings from online games/VDA – partial relief	Prosecution u/s 476 for TDS default on online games/VDA only if wholly or partly in cash; wholly in kind excluded from criminal liability	Same as above

SEC. 473–485, 494 (ITA 2025) PROSECUTION DECRIMINALISATION; (275A–280 ITA 1961) [CLAUSE 17 TO 25 AND CLAUSE 93 TO 105]

- From 1ST April 2026, imprisonment under various income tax offences will be simplified and rationalized — rigorous imprisonment is replaced with simple imprisonment, with the maximum term reduced to 2 years (3 years for repeat offences). Prosecution will now depend on graded tax evasion thresholds, ranging from fines for evasion up to ₹10 lakh to imprisonment up to 2 years for evasion exceeding ₹50 lakh. Certain offences such as TDS defaults on lottery winnings and failure to produce books have been fully or partly decriminalized, while prosecution for TDS defaults on online games or VDAs will apply only where payments are made wholly or partly in cash.
- **Key Takeaways**
 - **Significant Relief:** The amendment provides substantial relief to taxpayers facing prosecution for failure to file returns in search cases
 - **Proportionate Punishment:** Three-tier structure ensures punishment matches offence severity
 - **Elimination of Harsh Penalties:** Removal of mandatory minimum and rigorous imprisonment
 - **Fine-Only Option for Small Cases:** Tax amounts up to ₹10 lakhs cannot result in imprisonment
 - **Decriminalization Trend:** Part of broader policy to reduce criminalization of tax matters
 - **Willful Intent Required:** Prosecution still requires proof of deliberate failure, not mere oversight

SECTION 292BA (ITA 1961) - ASSESSMENT VALIDITY AND DIN REQUIREMENTS-[CLAUSE26]

- Clause 26 of the Finance Bill 2026 inserts a new Section 292BA in the Income-tax Act, 1961, to address controversies arising from technical defects in quoting Document Identification Numbers (DIN) in assessment orders. This provision clarifies that assessments shall not be invalidated due to mistakes, defects, or omissions in DIN quoting, provided the assessment order references the DIN in any manner.
- The amendment applies **retrospectively from October 1, 2019**, overruling numerous High Court judgments that had quashed assessments on procedural technicalities related to DIN compliance.
- **Legal Impact of Retrospective Override**
 - **Clause 26 uses non-obstante clause:** "Notwithstanding anything contained in any judgment, order or decree of any court"
 - **This legislative override nullifies:**
 - All pending appeals based on DIN defects (from October 1, 2019 onwards)
 - Final High Court judgments quashing assessments for DIN errors
 - Taxpayer benefits obtained through favorable court rulings on DIN
- Revenue can now revive assessments previously quashed by courts ?

SECTION 292BA (ITA 1961) - ASSESSMENT VALIDITY AND DIN REQUIREMENTS-[CLAUSE26]

Effective Date: October 1, 2019

■ **Why October 1, 2019?**

- Date of CBDT Circular No. 19/2019 mandating DIN for all communications[77][80][83]
- Aligns with commencement of DIN requirement
- Covers entire period of DIN-related litigation (2019-2026)

■ **Impact on Pending and Completed Cases**

Case Status	Pre-Amendment Position	Post-Amendment Impact
Pending Appeals (DIN issue)	Taxpayer likely to succeed based on HC precedents	Revenue likely to succeed citing Section 292BA retrospectively
Final HC Orders (taxpayer won)	Assessment quashed—revenue loss	Revenue can seek review/SLP citing retrospective amendment
Ongoing Assessments (2019-2026)	AO hesitant to issue order with DIN defects	AO can confidently issue orders; minor DIN errors non-fatal
Assessments already completed	Some invalidated by courts	Potentially revived if within limitation for rectification

SECTION 292BA (ITA 1961) - ASSESSMENT VALIDITY AND DIN REQUIREMENTS-[CLAUSE26]

■ Comparative Analysis: Old vs New Provision

Aspect	Position Before Clause 26	Position After Clause 26
Legal Provision	Section 292B (general savings provision)	Section 292BA (specific DIN provision)
DIN Defects	Courts held DIN defects invalidate assessments despite Section 292B	Assessments valid if DIN referenced in any manner
Scope	Section 292B applied to general procedural defects, but courts held it didn't cover DIN	Section 292BA specifically addresses DIN-related mistakes
Court Judgments	High Courts quashed assessments for DIN errors	Legislative override: "Notwithstanding anything contained in any judgment, order or decree"
Retrospective Effect	No retrospective protection	Applies from October 1, 2019 retrospectively
Standard for Validity	DIN must be correctly quoted in assessment order	DIN need only be "referenced in any manner"
Taxpayer Protection	Strong—assessments quashed for technical errors	Reduced—procedural defects no longer fatal
Revenue Certainty	Low—assessments frequently invalidated	High—assessments protected from technical challenges

SECTION 292BA (ITA 1961) - ASSESSMENT VALIDITY AND DIN REQUIREMENTS-[CLAUSE26]

■ Timeline and Implementation

Date	Event
October 1, 2019	DIN mandate comes into effect (CBDT Circular 19/2019)
2019-2025	Multiple High Court judgments quash assessments for DIN defects
February 1, 2026	Finance Bill 2026 introduced with Clause 26 (Section 292BA)
March 2026 (expected)	Finance Bill 2026 passed by Parliament
April 1, 2026	Section 292BA comes into force
Retrospective from Oct 1, 2019	All assessments from 2019 onwards protected from DIN-based invalidity
Post-April 2026	Revenue to file review petitions/SLPs in cases lost on DIN grounds

SEC. 11 (ITA 2025) INCOMES NOT INCLUDED IN TOTAL INCOME. [10 ITA 1961] [SCHEDULE 111] [CLAUSE 31 & 108]

■ **Current scenario:**

Income-tax Act, exemptions for land transfer are generally restricted to specific conditions (e.g., Rural Agricultural Land or Sec. 10(37) for individuals/HUFs). However, **Sec. 96 of the RFCTLARR Act (2013)** states that *no* income tax shall be levied on any award or agreement made under that Act.

Following the RFCTLARR act, CBDT issued a circular 36/2016. This circular clarified that if the RFCTLARR Act exempts the compensation, the Income-tax Department should not tax it, even if a specific exemption is missing in the Tax Act itself.

■ **New proposal:**

Removed all ambiguity, the government is now amending Schedule III of the Act to formally include these exemptions.

SEC. 29(ITA 2025) DEDUCTIONS RELATED TO EMPLOYEE WELFARE. (36 ITA 1961) [CLAUSE 31 &108]

▪ Existing Provision:

Deduction for employee contributions was linked to the due date under the relevant labour/social-security law (e.g. PF/ESI due date). If the employer paid after that due date, no deduction was allowed even if payment was made before ITR filing.

▪ New proposal:

- Deduction is allowed if the employer credits/remits employee contributions on or before the ITR due date under Sec. 263(I).
- The Finance Bill expressly describes this as aligning the employee-contribution deduction timeline with the return-filing due date, rather than a separate, stricter fund-law date.

SEC. 69 (ITA 2025) BUYBACK TAXATION FRAMEWORK UNDER BUDGET 2026.[CLAUSE 34]

This is the most significant amendment introduced in Budget 2026. The provision creates a two-tier tax structure for promoters.

- **Aggregate Tax Liability for Promoters:** The total tax payable by a promoter on buyback gains comprises:
 - **Normal Capital Gains Tax:** Tax payable as per applicable capital gains provisions
 - **Additional Income Tax:** An additional levy to ensure effective tax rate benchmarks are met.
- **Rate Structure:**

Sl. No.	Type of Capital Gain	Rate: Domestic Company Promoter	Rate: Other Promoter
1.	STCG (Sec. 196)	2%	10%
2.	LTCG (Sec. 197/198)	9.5%	17.5%

- Promoter will have the **same meaning** as assigned to it in SEBI regulations.

SEC. 69 (ITA 2025) BUYBACK TAXATION FRAMEWORK UNDER BUDGET 2026.[CLAUSE 34]

▪ **Effective Tax Rates:**

Type of Gain	Normal Rate	Additional Tax	Category	Effective Rate
STCG	20%	2%	Domestic Company	22%
		10%	Other Promoter	30%
LTCG	12.5%	9.5%	Domestic Company	22%
		17.5%	Other Promoter	30%

▪ **Key Observation:**

The additional tax is calibrated to ensure promoters face an effective rate of 22% (domestic company promoters) or 30% (other promoters), regardless of whether the gain is short-term or long-term

▪ **Key Takeaways**

- **Paradigm Shift:** Buybacks now treated as capital transactions, aligning with economic substance
- **Promoter Accountability:** Additional tax ensures promoters cannot exploit buybacks for tax arbitrage
- **Capital Loss Relief:** Shareholders get benefit of cost of acquisition and loss carry-forward

SEC. 147 (ITA 2025) IFSC UNITS & OBUS - EXTENDED TAX HOLIDAY (SEC. 80LA ITA 1961) [CLAUSE-38]

- Finance Bill 2026 significantly enhances competitiveness of GIFT City IFSC by extending Sec. 147 tax holiday from 10 to 20 years and introducing 15% post-holiday rate. This aligns with India's ambition to become global financial hub.
- **Key Changes Overview:**
 - **IFSC Units:** Deduction extended to 20 consecutive years out of 25 (previously 10 out of 15)
 - **OBUs:** Pure 20-year consecutive deduction (previously 10 years)
 - **Post-Holiday Rate:** Business income taxed at 15% after deduction period ends
 - **Effective Date:** April 1, 2026 (Tax Year 2026-27 onwards)

- Comparative Analysis

Entity Type	Existing Position (Pre-2026)	Latest Position(Post-2026)
IFSC Units	10 consecutive years out of 15	20 consecutive years out of 25
OBUs	10 consecutive years	20 consecutive years
Post-Holiday	Normal corporate rates (25-30%)	15% concessional rate
Commencement	Year of permission/registration	relevant tax year

SEC. 150(ITA 2025) DEDUCTION IN RESPECT OF INCOME OF CO-OPERATIVE SOCIETIES.[80P ITA 1961] [CLAUSE 40]

- **Existing section:**

Dividends received by a Federal Co-operative from its investments in companies were generally included in its Gross Total Income (GTI). Co-operatives could claim deductions under Sec. 80P. Previously, there was no specified time limit.

- **Substitution of section 150:**

The new Sec. 150 introduces a targeted deduction for Federal Co-operatives (notified under the Multi-State Co-operative Societies Act). They can now deduct dividend income from their taxable income, provided:

- The investment was recorded in their books on or before January 31, 2026.
- The dividend is distributed to their members at least one month before the tax filing due date.

SEC. 169 (ITA 2025) ADVANCE PRICING ARRANGEMENTS. (SEC. ITA 1961) [CLAUSE 45]

- **Existing Provision:**

Person who has entered into APA should file the modified return within three months from the end of the month in which the agreement was entered into.

- **New Provision:**

In addition to the person who has entered into APA, AE of such person may file a modified return for claiming refund for any additional taxes paid by it or withheld from its income

SEC. 206 (ITA 2025) MAT RATIONALISATION-(SEC. 115JB) [CLAUSE-50]

- MAT rate cut from 15% to 14% of book profit for companies in old regime
- MAT credit:
 - No fresh credit in old regime – MAT becomes final tax there.
 - In new regime, domestic companies can set off MAT credit only up to 25% of normal tax liability.
 - For foreign companies, set-off limited to the difference between normal-tax liability and MAT in years where normal tax exceeds MAT.
- Sec. 206(1)(l) – MAT inapplicability extended to two more presumptive businesses
 - Non-resident presumptive businesses already excluded under Sec. 61; two additional businesses are now excluded:
 - business of operating cruise ships, and
 - business of providing services/technology for setting up an electronics manufacturing facility in India to a resident company.

SEC. 296 (ITA 2025) TIME-LIMIT FOR COMPLETION OF BLOCK ASSESSMENT. (158BE OF ITA 1961) [CLAUSE 65]

Existing provision sub sec. (1):

Irrespective of the provisions of Sec. 286, the order under Sec. 294 shall be passed within **twelve months** from the end of the quarter in which the last of the authorizations for search was executed, or requisition was made.

New proposal sub sec. (1):

Irrespective of the provisions of Sec. 286, the order under Sec. 294 shall be passed within **eighteen months** from the end of the quarter in which the search was initiated or requisition was made

CONVERSION OF PENALTIES INTO FEES-[CLAUSE 87-89]

- 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
 - Failure to Get Accounts Audited
 - Non-Furnishing of Transfer Pricing Audit Report
 - Default in Furnishing Statement of Financial Transactions

Old Penalty Section	Nature	New Fee Section	Amount	Effective From	Impact
Sec. 446 (audit default)	Penalty: Lower of 0.5% turnover or Rs 1.5 lakh	Sec. 428(c)	Graded fee: Rs 75,000 or Rs 1,50,000 depending on delay period	1-4-2026 (TY 2026-27) under 2025 Act	Beneficial: Mandatory fee (no discretion); reduces litigation; 446 repurposed for crypto defaults
Sec. 447 (TP report default u/s 172)	Penalty: Rs 1,00,000	Sec. 428(d)	Graded fee: Rs 50,000 or Rs 1,00,000 depending on delay	1-4-2026 (TY 2026-27)	Rationalisation: Converts discretionary penalty to fixed fee
Sec. 454(1) (SFT default)	Penalty: Rs 500/day	Sec. 427(3)	Fee replacing daily penalty structure	1-4-2026 (TY 2026-27)	Rationalisation: Capped fee structure
Sec. 454(2) (SFT – post-notice default)	Penalty: Rs 1,000/day (uncapped)	Capped at Rs 1,00,000	Max penalty Rs 1 lakh	1-4-2026 (TY 2026-27)	Beneficial: Prevents runaway penalties

ANALYSIS OF TAX EXEMPTIONS AND SUNSET PROVISIONS- SCHEDULE IV AMENDMENTS OF ITA 2025 [CLAUSE 109]

Clause 109 of the Finance Bill 2026 introduces three new exemptions (Serial Numbers 13A, 13B, and 13C) to Schedule IV of the Income-tax Act, 2025

These exemptions target strategic sectors—electronics manufacturing, foreign service provision, and data centre infrastructure—with specific timelines aimed at promoting investment and technological advancement in India.

1. Electronics Manufacturing Incentive:

- Income exempted from total income when derived by:
 - Foreign companies providing capital goods, equipment, and tooling to toll manufacturers
 - Toll manufacturers must operate in bonded manufacturing zones
 - Manufacturing activity must relate to electronic goods production

2. Foreign Service Providers Exemption:

- Certain income of non-resident foreign service providers exempted when:
 - Services are rendered in India
 - Services fall under notified government schemes
 - Providers meet specified eligibility criteria
 - This exemption creates favorable conditions for international service providers participating in government-approved initiatives, particularly in technology, consulting, and infrastructure development sectors.

ANALYSIS OF TAX EXEMPTIONS AND SUNSET PROVISIONS- SCHEDULE IV AMENDMENTS OF ITA 2025 [CLAUSE 109]

3. Data Centre Infrastructure Exemption

▪ Definition of Data Centre:

Data centre means a facility used for housing computer systems and associated components, such as telecommunications and storage systems, including backup power supplies, data communication connections, environmental controls, and security devices.“

▪ Income exempted for notified foreign companies deriving income from

- Procuring data centre services in India
- Cloud services infrastructure development
- Data processing and storage operations

The staggered sunset provisions reflect differentiated policy priorities—short-term stimulus for electronics, medium-term flexibility for services, and long-term commitment for digital infrastructure.

ANALYSIS OF TAX EXEMPTIONS AND SUNSET PROVISIONS- SCHEDULE IV AMENDMENTS OF ITA 2025 [CLAUSE 109]

Clause 109 of the Finance Bill 2026 represents a strategic policy initiative targeting three critical sectors for India's economic development:

Sl. No. in Schedule IV	Exemption Type	Duration	Expiry Date
13A	Electronics Manufacturing Incentive	5 tax years (2026-27 to 2030-31)	31.03.2031 (TY 2030-31)
13B	Foreign Service Providers	Scheme-specific (to be notified)	Per notification
13C	Data Centre Infrastructure	21 tax years (2026-27 to 2046-47)	31.03.2047 (TY 2046-47)

THE FOREIGN ASSETS OF SMALL TAXPAYERS' DISCLOSURE SCHEME, 2026. [CLAUSE 114 -128]

- Finance Bill 2026, has introduced The Foreign Assets of Small Taxpayers Disclosures Scheme, 2026 which shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint .
- A one-time opportunity to regularize undisclosed foreign assets and income with immunity.
 - Two categories: Undisclosed ($\leq ₹1$ Cr) & Previously taxed ($\leq ₹5$ Cr)
 - Complete immunity from penalties & prosecution
 - Targets students, NRIs, and professionals
- Eligible Assessee:
 - Residents in India during previous year
 - Former residents who were NRI/RNOR but owned assets when resident
 - Those who failed to file return or disclose assets
 - Cases where income escaped assessment

THE FOREIGN ASSETS OF SMALL TAXPAYERS' DISCLOSURE SCHEME, 2026. [CLAUSE 114 -128]

- Two Categories of Assets to which the Scheme Applies:
 - Assets/income never disclosed in ITR - no satisfactory source explanation(≤₹1 Cr) :
 - Tax: 30% on FMV/Income (as on 31-Mar-2026)
 - Penalty equivalent: 30% (Aggregate Total 60%)
 - Assets from taxed income but not declared in Schedule FA of ITR (≤₹5 Cr)
 - Flat fee: ₹1 Lakh (regardless of value)
 - Applies: NRI assets on residency change, salary abroad (taxed)
- Scheme Does Not Apply to :
 - Assets linked to proceeds of crime (PMLA cases)
 - Cases where Black Money Act assessment already completed
 - Invalid declarations with false particulars

THE FOREIGN ASSETS OF SMALL TAXPAYERS' DISCLOSURE SCHEME, 2026. [CLAUSE 114 -128]

Benefits & Immunity Granted

- Benefits:
 - One-time Opportunity
 - Generous Limit(₹1 Cr / ₹5 Cr)
 - Conclusive immunity order

- Full Immunity From
 - Black Money Act prosecution
 - Penalties under IT Act
 - Further tax on declared assets

TDS/TCS RATE CHANGES UNDER THE IT ACT 2025

Provision	Old Rate	New Rate	Effective From	Impact
Sec. 394 (TCS): Alcoholic liquor	1%	2%	1-4-2026	Increased TCS burden on sellers
Sec. 394 (TCS): Tendu leaves	5%	2%	1-4-2026	Relief for tendu collectors
Sec. 394 (TCS): Scrap	1%	2%	1-4-2026	Increased TCS on scrap dealers
Sec. 394 (TCS): Coal, lignite, iron ore	1%	2%	1-4-2026	Increased TCS on mineral sales
Sec. 394 (TCS): LRS – education/medical > Rs 10 lakh	5%	2%	1-4-2026	Significant relief for students/patients

TDS/TCS RATE CHANGES UNDER THE IT ACT 2025 [CLAUSE 72&73]

Provision	Old Rate	New Rate	Effective From	Impact
Sec. 394 (TCS): Overseas tour packages	5% up to Rs 10L; 20% above	Flat 2%, no threshold	1-4-2026	Levels playing field vs foreign operators; removes threshold cherry-picking
Sec. 393 (TDS): Motor Accident Claims Tribunal interest – individual	50,000 threshold	No TDS (threshold removed)	1-4-2026	Complete relief for accident victims
Sec. 393 (TDS): Interest to co-op banks/land mortgage banks	TDS applicable	No TDS	1-4-2026	Relief for co-operative banking sector
Sec. 393 (TDS): Immovable property TAN requirement	Resident individual/HUF required to obtain TAN for non-resident seller	TAN not required	1-10-2026	Reduces compliance for one-time property buyers

POINTS FROM HON'BLE FM SPEECH. *[PARA 124 -129 OF THE SPEECH]*

■ **Advance Pricing Arrangements:**

- Unilateral APA process to be fast-tracked for IT services sector
- Target timeline to conclude APA: within 2 years. Extension of up to 6 months available on request of the taxpayer.

■ **Safe Harbour for IT Services:**

- All IT services (software, ITES, KPO, contract R&D) clubbed under one category with 15.5% margin.
- Threshold increased from ₹300 Cr to ₹2,000 Cr.
- Automated approval, valid for 5 years once opted.



THANK
YOU!
