Major Budget Proposals related to Direct Taxes

CA. Bansari Patel
bansari@ddsaca.com

CA. Dipen Shah
dipen@ddsaca.com

On 1st February 2026, Hon'ble Finance Minister Nirmala Sitharaman presented her ninth consecutive Union Budget in Parliament, prepared in Kartavya Bhawan with focus on poor, underprivileged and the disadvantaged. Guided by the three Kartavyas, it aims to accelerate and sustain economic growth, meet the aspirations of the people, strengthen their capabilities, and realize the vision of *Sabka Sath, Sabka Vikas*. The budget was presented with a total size of **Rs.53.47 lakh crore**. The Budget 2026 outlines the roadmap for achieving "**Viksit Bharat by 2047**", setting the direction for India's long-term development goals.

I. Major Budget Proposals related to Direct Taxes:

1. Amendment related to Return Filing

a. Return filing due date:

Individuals with ITR 1 and ITR 2 returns will continue to file till 31st July and non-audit business cases or trusts are proposed to be allowed time till 31st August.

b. Revised Returns:

Returns can be revised till 31st march instead of 31st December with nominal fees.

c. Updated Returns:

i. An Update return can even be filed after issuance of a reassessment notice, within the period specified in notice, subject to payment of additional income tax plus 10%.

ii. To allow to file updated return even when a taxpayer reduces the quantum of loss originally claimed in a timely filed loss return.

2. Amendment related to TDS/TCS:

a. TAN Requirement Waived for Resident Individuals/HUFs Buying Property from Non-Residents:

It is proposed to remove the requirement for resident individuals and HUFs to obtain TAN when deducting TDS on purchase of immovable property from a non-resident seller effective from 1 October 2026.

b. TDS on manpower supply:

Manpower supply will be treated as "work" with TDS under contractor provisions (1% for individual/HUF, 2% otherwise), effective 1 April 2026.

c. Non-life insurance deduction:

Allow deduction in the year TDS is actually paid, even if disallowed earlier, effective 1 April 2026.

d. Rationalization of TCS rates is proposed as follows:Top of Form

Sl. No.	Nature of Receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption.	1%	2%
2	Sale of tendu leaves.	5%	2%
3	Sale of scrap.	1%	2%
4	Sale of minerals, being coal or lignite or iron ore.	1%	2%

Sl. No.	Nature of Receipt	Current Rate	Proposed Rate
5	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding ten lakh rupees	(a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment. medical treatment.	(a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or
6	Sale of "overseas tour programme package" including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure.	(a) 5% of amount or aggregate of amounts up to ten lakh rupees; (b) 20% of amount or aggregate of amounts exceeding ten lakh rupees.	2%

3. **Taxation of Share Buy Backs:** It is proposed that consideration from share buy backs be taxed as capital gains rather than dividend income. Further, promoters will be subject to an effective tax rate of 30% on such gains, and promoter companies to 22%. These amendments apply from tax year 2026–27.

4. **Disallowance of Interest Deduction Against Dividend Income:** It is proposed to amend to disallow any deduction for interest expenditure incurred for earning dividend income or income from mutual fund units.

5. **Increase in Securities Transaction Tax (STT) (Effective Date:** 1 April 2026)

Transaction Type	Basis of Levy	Existing STT Rate	Proposed STT Rate
Sale of option in securities	Option premium	0.10%	**0.15%**
Sale of option (on exercise)	Intrinsic value	0.125%	**0.15%**
Sale of futures in securities	Traded price	0.02%	**0.05%**

These changes aim to curb disproportionate growth in derivatives speculation.

6. **Amendment related to Minimum Alternate Tax:**

   a. MAT paid under the old regime is proposed to be treated as final tax, with no further MAT credit allowed.

   b. The MAT rate will be reduced from 15% to 14%.

   c. Set off of MAT credit in the new regime will be permitted to the extent of 25% of tax liability for domestic companies and for foreign companies to the extent of the difference between normal tax and MAT where applicable.

   d. It is Proposed to Exclude cruise ship operations and services/technology for setting up electronics manufacturing facilities from the applicability of MAT for non-resident presumptive businesses, ensuring parity across sectors.

7. **Amendment related to Rationalization of penalty and Prosecution:**

   a. No penalty for non-disclosure of non-immovable foreign assets with aggregate value less than 20 lakh rupees. This immunity is in effect retrospectively from 1.10.2024.

b. Assessment and penalty proceedings will be integrated into a single common order. Further, no interest will apply on penalty during the first appeal, and pre-deposit for appeal is reduced from 20% to 10%, which will be calculated only on the core tax demand.

c. The immunity framework from penalty and prosecution will be extended to misreporting cases, subject to payment of an additional tax equal to 100% of the tax due.

d. Tax on unexplained income is proposed to be reduced from 60% to 30%, with the separate penalty removed and merged into the misreporting penalty regime.

e. Penalties for specified technical defaults—such as failure to get accounts audited, non-filing of transfer pricing audit reports, and non-furnishing of statements of financial transactions—are proposed to be replaced with a fee-based mechanism.

f. Penalty for delay in filing Form 3CEB has been replaced with a graded fee system, wherein a fee of Rs. 50,000 will be levied for a delay of upto 1 month and Rs. 1,00,000 will be applicable for a delay beyond one month.

g. Non-production of books of account and TDS defaults where payment is made in kind are proposed to be decriminalized, with minor offences attracting only monetary fines.

h. Other prosecutions will be graded by severity, limited to simple imprisonment with a reduced maximum of two years, and courts may convert imprisonment into fines.

i. Penalties for non-furnishing or furnishing inaccurate information in crypto-asset transaction statements, with Rs. 200 per day for non-filing and Rs. 50,000 for inaccurate/uncorrected information.

j. The time limit for completion of block assessment in search cases is proposed to be extended from 12 months to 18 months, with the date of initiation of search as reference point.

8. Amendment related to Quoting of Document Identification Number (DIN): The Budget proposes to clarify that assessments shall not be invalid merely due to any mistake, defect, or omission in quoting the computer-generated Document Identification Number (DIN), provided the assessment is referenced by such DIN in any manner. This amendment, aimed at overriding contrary judicial precedents and reducing litigation, will apply retrospectively from 1 October 2019 under the Income-tax Act, 1961, with corresponding provisions introduced in the Income-tax Act, 2025 effective 1 April 2026.

9. Clarification on Jurisdiction for Issuing Notice under Section 148/148A: The Budget proposes to clarify that the jurisdiction to conduct pre-assessment enquiries and issue notices under sections 148A and 148 rests solely with the jurisdictional Assessing Officer and not with the National Faceless Assessment Centre (NaFAC) or its assessment units. This clarification, intended to override divergent judicial views and reduce litigation, will apply retrospectively from 1 April 2021 under the Income-tax Act, 1961, with corresponding amendments in the Income-tax Act, 2025 effective from 1 April 2026.

10. Proposals to boost Foreign Investments:

a. To support electronics manufacturing by contract manufacturers located in customs bonded areas, Schedule IV is proposed to exempt income of foreign companies arising from the supply of capital goods, equipment, or tooling to such manufacturers, up to the tax year 2030–31.

b. A specified data centre must be established under a scheme approved and notified by the Ministry of Electronics and Information Technology (MeitY) and must be owned and operated by an Indian company. To encourage investment in data centres and support the AI data centre framework, it is proposed to amend Schedule IV to exempt the income of foreign companies arising from the procurement of services from specified data centres in India, up to the tax year ending 31 March 2047.

c. Information technology (IT) services will be consolidated into a single classification with a uniform 15.5% safe harbour margin, and the safe harbour threshold will be raised from Rs. 300 crore to Rs. 2000 crore with automated, rule based approvals. The provision of Safe harbour can be continued for a period of five years, based on company's choice.

d. The Budget proposes a Safe Harbour of 15% on cost for an Indian captive datacentre service provider.

e. To streamline compliance, it is proposed that where income is modified pursuant to an advance pricing agreement (APA), the concerned person—or any associated enterprise—shall furnish a return or modified return, limited to the terms of the APA, within three months from the end of the month in which the agreement is executed. This applies to APAs entered on or after 1 April 2026 for tax years beginning on or after that date.

11. Foreign Asset Disclosure: A one-time six-month foreign asset disclosure scheme for small taxpayers to voluntarily declare undisclosed overseas assets or income, covering two categories:

a. **Category 1** includes taxpayers who never disclosed foreign assets or income where the aggregate value does not exceed Rs.1 crore, They need to pay 30 percent of Fair Market Value of asset or 30 percent of undisclosed income as tax and 30 percent as additional income tax in lieu of penalty and would thereby get immunity from prosecution.

b. **Category 2** includes taxpayers who had disclosed foreign assets earlier, provided the total value does not exceed Rs.5 crore. Here, immunity from both penalty and prosecution will be available with the payment of fee of 1 lakh rupees.

12. Amendment related to Gift City:

a. It is Proposed toamend IFSC treasury centre rules to require the counterparty group entity to be located in a notified foreign jurisdiction and the parent/principal entity to be listed on a foreign stock exchange, with jurisdictions notified by the Central Government.

b. To enhance IFSC competitiveness, the deduction period for IFSC units is proposed to be increased to 20 out of 25 consecutive years, and to 20 consecutive years for OBUs. Post deduction business income will be taxed at 15%.

13. Rationalisation of Due Date for Crediting Employee Contributions: It is proposed to amend section 29(1)(e) to align the due date for crediting employee contributions with the due date for filing the return of income under section 263(1). Consequently, provident fund and other employee welfare contributions may be deposited up to the return filing due date.

14. Exemption for Sovereign Gold Bonds (SGBs): To ensure uniform application of the exemption for capital gains on redemption of SGBs, it is proposed to be amended to restrict the exemption to bonds subscribed at original issuance and held continuously until maturity. This applies from tax year 2026–27 onwards.

15. Proposals related to ICDS:

It was proposed that Income Computation and Disclosure Standards(ICDS) shall be repealed from 1 April 2027. It was further proposed that a joint committee comprising representatives from the Ministry of Corporate Affairs and the Central Board of Direct Taxes (CBDT) be constituted to facilitate the integration of ICDS with the Indian Accounting Standards.

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