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UNION BUDGET
2026



AN ANALYSIS
INCOME TAX

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TAX RATES (NO CHANGE)

No change has been made in the income-tax or GST rates in this Budget. The focus remains on rationalisation, compliance facilitation, and widening the tax base rather than altering existing tax rates.

CHANGES IN DEADLINES AND PROVISIONS – INCOME TAX RETURN FILING

A. Extended Due Dates for Return Filing

Category	Current Deadline	New Deadline	Benefit
Business Income (No audit required) (ITR-3 & ITR-4)	31st July	31st August	+31 days
Professional firms (No audit) (ITR-3 & ITR-4)	31st July	31st August	+31 days
Partners of firms (No audit)	31st July	31st August	+31 days
Trusts (No audit)	31st July	31st August	+31 days
Salaried (ITR-1/ITR-2)	31st July	31st July	No change ✗
Business owners (Audit Cases)	31st October	31st October	No change ✗

Benefit: The previous July 31st deadline was too tight. Extra 31 days available for small businesses to prepare, reconcile and close books, collect TDS information, minimise errors, compute tax, plan investments.

Who does NOT benefit - Disappointing for salaried employees filing simple returns (ITR-1 or ITR-2) - they still have July 31st July deadline although they also need time to collect Form 16, gather investment proofs, claim deductions properly, claim TDS.

When does this apply?

- For Income Tax Act, 2025: From 1st April, 2026 (Tax Year 2026-27)
- For Income Tax Act, 1961: From 1st March, 2026 (Assessment Year 2026-27)

B. Revised Return (To correct mistakes) Period Extension

Category	Current Deadline	New Deadline	Benefit
Revised Return (No Late Fees)	31st December	31st December	Nil ✗
Revised Return (With Late Fees)	31st December	31st March	+3 months
Belated Return	31st December	31st December	Nil ✗

- Late Fee for Revised Returns (Jan 1 – Mar 31): ₹1,000 if total income is up to ₹5 Lakh and ₹5,000 if total income exceeds ₹5 Lakh.
- This late fee is in addition to any late fees paid for filing of belated return after the original due date.
- This addresses a genuine practical problem. The 3-month gap between belated and revised return deadlines provides a meaningful safety net. Person filing belated return in December now has 3 months to discover and fix errors!

C. Updated Return - Expanded Scope

Particulars	Situation	Time Limit	Remarks / Impact	Effective
Updated Return (ITR-U)	Where original return not filed	From 1st January of next AY	Additional tax payable	From 1st April, 2026 (Tax Year 2026-27 onwards)
Updated Return (ITR-U)	Where original return already filed	From 1st April of next FY	Used to correct omissions	From 1st April, 2026 (Tax Year 2026-27 onwards)
Updated Return after notice u/s 148	Permitted with conditions	Within prescribed ITR-U window	Extra 10% tax over applicable additional tax	From 1st April, 2026 (Tax Year 2026-27 onwards)

a) ITR-U Availability:

- **No Original/Belated Return filed :** ITR – U accessible from January 1st.
- **Original Return already filed:** ITR : U accessible from April 1st of the following FY.

b) Updated return after reassessment notice [Section 280 (new) / 148 (old)]:

Previously barred, taxpayers can now file an updated return even after a Notice u/s 148 has been issued, provided they pay an additional 10% penalty on top of the standard additional tax.

- **Earlier position:** Once a reassessment notice was issued, the taxpayer had only two choices, either contest the notice or accept the addition, both carrying risk of heavy penalties and possible prosecution.
- **New change (from 1 April 2026):** Even after receiving a reassessment notice, a taxpayer can now file an updated return, declare the additional income, pay tax plus additional tax (regular additional tax + extra 10%), and avoid penalty and prosecution altogether.
- **Why it matters:** This provides a settlement route that significantly reduces total outgo, saves time and litigation costs, and offers certainty and peace of mind.
- **When to use:** Suitable where evidence is against the taxpayer and quick closure is preferred. Not advisable where the taxpayer has a strong, defensible case.

Tax Liability Structure for ITR-U:

Period from end of AY	Additional Tax Before Notice u/s 148	Additional Tax After Notice u/s 148
Within 12 months	25%	$25\% + 10\% \text{ of } 25\% = 27.5\%$
12-24 months	50%	$50\% + 10\% \text{ of } 50\% = 55\%$
24-36 months	60%	$60\% + 10\% \text{ of } 60\% = 66\%$
36-48 months	70%	$70\% + 10\% \text{ of } 70\% = 77\%$

c) Reduction of Losses now allowed

- Taxpayers can now submit an updated return to lower their claimed losses, even if the change does not trigger any additional tax payment.
- Earlier, an updated return could be filed only to convert a loss into income or to increase declared income
- But it was not permitted to reduce the quantum of loss already reported (for example, reducing a declared loss of ₹1 lakh to ₹50,000 was not allowed).
- Under the revised provisions, taxpayers are now expressly allowed to reduce losses through an updated return.
- For instance, if Ramesh originally filed his return for FY 2024-25 showing a business loss of ₹5 lakh and later discovered that the actual loss was only ₹3 lakh, he can now file an updated return to correctly report the reduced loss of ₹3 lakh—something that was not possible under the earlier rules.
- This change is practical because reporting excessive losses may invite scrutiny, adversely affect loan eligibility and creditworthiness, create unnecessary stress, and lead to complications in future assessments, whereas accurate reporting ensures compliance and long-term clarity.

SUMMARY OF AMENDMENTS IN TDS & TCS RATES / PROVISIONS

Nature of Transaction	Earlier Provision	Revised Provision	Remarks / Impact
Collection on sale of tendu leaves	TCS @ 5%	TCS @ 2%	Rate rationalised to reduce collection burden
Sale of alcoholic liquor for human consumption	TCS @ 1%	TCS @ 2%	Uniform increase in TCS rate
Sale of scrap	TCS @ 1%	TCS @ 2%	Higher upfront tax collection
Sale of minerals (coal/lignite/iron ore)	TCS @ 1%	TCS @ 2%	Aligned with other specified goods
Remittance under LRS – education	TCS @ 5%	TCS @ 2%	Relief provided for education remittances
Overseas tour programme package	TCS @ 5% up to ₹10 lakh, 20% above ₹10 lakh	TCS @ 2% irrespective of amount	Simplified structure with reduced rate
Manpower supply services (TDS)	Classification dispute (professional/technical/contract)	Treated as contractual service TDS @ 1% / 2%	Litigation reduced by specific inclusion

Cooperative Bank TDS Exemption

- A straightforward but meaningful change for cooperative banking clients, systems and compliance processes should be updated to reflect the exemption.
- **Earlier position:** TDS applicable on interest paid to cooperative banks and cooperative land mortgage banks. Scheduled commercial banks exempt, creating unequal treatment.
- **Amendment:** Cooperative banks and cooperative land mortgage banks exempt from TDS on interest income (other than securities).
- **Rationale:** Both are regulated banking entities; differential TDS treatment lacked justification. Amendment removes regulatory and tax inconsistency.
- **Impact:** Improved cash flow for cooperative banks. Eliminates refund blockages arising from routine TDS deductions.
- **Effective from:** 1 April 2026.

DECriminalisation Reforms – A Historic Shift in Tax Law

The proposed tax reforms mark a fundamental shift from a criminal-centric approach to a civil-penalty-driven regime, ensuring that honest mistakes do not lead to jail, while serious and deliberate fraud continues to be punished. The reforms focus on proportionality, certainty, and ease of compliance.

Part A: Core Decriminalisation Changes

Nature of imprisonment softened:

Rigorous imprisonment involving hard labour is being replaced with simple imprisonment, significantly reducing the severity of incarceration even where jail is prescribed.

Maximum imprisonment drastically reduced:

For first-time offences, the maximum term is reduced from 7 years to 2 years, and for repeat offences from 7 years to 3 years.

Example: Failure to deposit ₹80 lakh TDS earlier attracted up to 7 years RI; under the new law, it attracts up to 2 years simple imprisonment.

Graded punishment linked to tax amount:

Punishment now depends on the quantum involved:

- **Small amount** - Below ₹10 lakh: Fine only – no jail at all. Mohan runs a small shop. Evaded tax: ₹8 lakhs. Current law: Could face up to 7 years jail. New law: Only fine, NO JAIL POSSIBLE!
- **Medium amount** - ₹10–50 lakh: Simple imprisonment up to 6 months or fine. Rajesh is a professional. Evaded tax: ₹30 lakhs. Current law: Up to 7 years rigorous imprisonment. New law: Maximum 6 months simple imprisonment (or just fine)
- **Large amount** - Above ₹50 lakh: Simple imprisonment up to 2 years. Example: A trader evading ₹8 lakh tax earlier faced jail risk; now only a fine applies. Company evaded tax: ₹1 crore. Current law: Up to 7 years rigorous imprisonment. New law: Up to 2 years simple imprisonment

Part B: Complete Decriminalisation of Specific Defaults

Some offences are now **COMPLETELY DECRIMINALIZED** - no jail at all, not even fine in some cases!

- **TDS on perquisites and fringe benefits:** Non-deduction of TDS on benefits like company cars, accommodation, stock options or Club membership is fully decriminalised.
- **Previously:** If employer didn't deduct TDS → Could go to jail for 3-7 years. **Now: COMPLETELY DECRIMINALIZED** - No jail, no fine! Example: Employer forgetting TDS on a company car no longer faces jail—only interest applies.
- **TDS on lottery and game-show winnings:** If someone wins lottery/game show, payer must deduct 30% TDS before paying. **Previously:** If organizer didn't deduct → Could go to jail. **Now: COMPLETELY DECRIMINALIZED.** Failure to deduct 30% TDS is no longer a criminal offence. Example: If a TV show mistakenly pays full winnings without TDS, only tax and interest are payable—no prosecution.
- **Non-production of books during assessment:** During tax assessment, officer asks for books of accounts. **Previously:** If taxpayer doesn't produce books → Could face up to 2 years jail. **Now: COMPLETELY DECRIMINALIZED.** Earlier punishable with jail, now completely decriminalised, recognising genuine situations like loss due to fire or theft or misplacement.

Part C: Section-wise Rationalisation (Illustrative Impact)

- **TDS/TCS non-payment & willful evasion:**
Earlier: Uniform 3-7 years RI for all cases.
Now: Graded structure with no jail below ₹10 lakh, limited jail above that.
Example: Company not depositing ₹5 lakh TDS now faces only a fine.
- **Non-filing of return & false statements:**
Punishment now depends on tax impact, removing jail exposure for small and technical defaults.
Example: Freelancer with ₹7 lakh tax impact for non-filing now faces fine only.
- **Repeat offences:**
Jail still exists but maximum reduced to 3 years simple imprisonment, reinforcing deterrence without excessive punishment

When tax officers come for search/raid, if someone, blocks entry, hides documents, threatens officers, refuses to cooperate

PENALTY TO FEE CONVERSION – A PARALLEL STRUCTURAL CHANGE

Criminal & Penalty Law Changes – What Clients Must Know**

Big Picture (In Simple Words)

Budget 2026 changes how tax mistakes are punished

- Small and genuine cases get relief from jail
- Missed compliances now cost money with certainty (no waivers)

The system moves from fear and discretion to certainty and discipline.

1. Jail Risk Greatly Reduced for Small Cases

What's changed

- Rigorous jail → Simple jail
- Maximum jail terms reduced
- No jail at all for small tax amounts

Jail exposure (First-time cases)

Below ₹10 lakh	No jail
₹10–50 lakh	Up to 6 months
Above ₹50 lakh	Up to 2 years

Earlier, even small cases could face up to 7 years jail.

Repeat offences

- Still punished
- Jail: 6 months to 3 years (earlier up to 7 years)

What this means

- 70–80% of taxpayers now face ZERO jail risk
- Jail is reserved for large and repeat offenders
- Tax, interest and penalties still apply – only jail risk is reduced

2. Penalty → Fee Conversion (The Most Important Change)

Several penalties are converted into fixed, mandatory fees.

a) Penalty (Earlier)

- ✓ Officer discretion
- ✓ Waiver possible

b) Fee (Now)

- ✗ No discretion
- ✗ No waiver
- ✓ Fixed & predictable

Key Compliance Defaults – New Fees

A. Audit Report Delay

Delay	Mandatory Fee
Up to 6 months	₹75,000
More than 6 months	₹150,000

✓ Even genuine hardship = fee payable

B. Transfer Pricing (TP) Report Delay

Delay	Mandatory Fee
Up to 6 months	₹50,000
More than 6 months	₹100,000

C. Statement Defaults

- Daily penalties converted into fees
- Maximum cap: ₹1,00,000
- Prevents unlimited penalty build-up (positive change)

Illustration (Real Impact)

A company files:

- Audit report 2 months late
- TP report 2 months late

Earlier:

- Penalty could be negotiated down to ~₹1 lakh

Now:

- **Audit fee: ₹75,000**
- **TP fee: ₹50,000**

Total mandatory cost: ₹1.25 lakh

No waiver. No negotiation.

Who Benefits & Who Must Be Careful

Who benefits

- Small taxpayers: No jail fear
- Large companies: Penalty exposure capped
- System: Less litigation, faster closure

Who must be careful

- Small businesses
- First-time defaulters
- Genuine hardship cases

Deadlines are now absolute

Client Takeaway (Most Important Line)

- Jail risk is down – compliance discipline must go up.
- Missing deadlines is no longer “manageable”; it has a fixed price.

Effective Dates

- Income-tax Act, 1961: 1 March 2026
- Income-tax Act, 2025: 1 April 2026

Our Advice

- Build buffer time for audits & reports
- Do not rely on waiver or reasonable cause
- Treat compliance dates as non-negotiable

Rekhani And Saraogi

Budget 2026 brings BIG changes in tax penalties & prosecution.

1. Massive Relief from Jail (Small Cases)

- Tax < ₹10 lakh → NO JAIL
- ₹10–50 lakh → Jail up to 6 months
- > ₹50 lakh → Jail up to 2 years

Earlier, even small cases could face up to 7 years jail.

Repeat offenders: Jail still applies (6 months–3 years).

2. Penalties Converted into FIXED FEES (No Waiver)

Officer discretion is gone. Deadlines are now absolute.

Audit Report Delay

- Up to 6 months → ₹75,000
- Over 6 months → ₹1,50,000

Transfer Pricing Report Delay

- Up to 6 months → ₹50,000
- Over 6 months → ₹1,00,000

Statements (SFT etc.)

- Daily penalties capped at **₹1,00,000** (good change)

Example

- Audit + TP reports filed 2 months late
- Mandatory fee = ₹1.25 lakh

(No waiver, even for genuine reasons)

- Bottom Line Jail fear reduced for small taxpayers
- Compliance discipline becomes critical
- Missing deadlines now has a fixed cost
- **Effective from: March–April 2026**

Budget 2026 – Criminal & Penalty Law Changes

LESS JAIL | MORE CERTAINTY | ZERO MERCY ON DEADLINES

Jail Exposure (First-time cases)

Tax Amount	Jail Risk
< ₹10L	✗ No Jail
₹10–50L	Up to 6 months
> ₹50L	Up to 2 years

Penalty → Fee (Mandatory)

Default	Fee
Audit report delay ≤ 6 months	₹75,000
Audit report delay > 6 months	₹150,000
TP report delay ≤ 6 months	₹50,000
TP report delay > 6 months	₹100,000
Statements	Capped at ₹1,00,000

Key Takeaway

Jail risk reduced, but missing deadlines now costs money – no excuses, no waiver.

	Current	Proposed	Remarks / Impact
Section 473: Obstruction During Search	Rigorous imprisonment Up to 2 years + Fine	Simple imprisonment Up to 2 years + Fine	During raid at factory, manager locks office and refuses to open. Old: Rigorous imprisonment + fine New: Simple
Section 474: Non - Cooperation in Search	Rigorous imprisonment Up to 2 years + Fine	Simple imprisonment Up to 6 months + Fine (not mandatory both)	During search, if person doesn't answer questions, gives false information, hides assets
Non-Production of Books/Docs (no single section quoted; policy change)	Prosecution possible	Decriminalised / fees/penalty	earlier criminal; now civil penalty/fee – no jail.
Section 475 – Failure to Produce Documents/Information	Rigorous imprisonment + fine		Towns into compliance fee type
Section 476: TDS non-Payment	All TDS defaults → 3 to 7 years rigorous imprisonment + fine	> ₹50 lakhs - Simple imprisonment up to 2 years OR fine, ₹10-50 lakhs - Simple imprisonment up to 6 months OR fine, < ₹10 lakhs - Fine only	When someone deducts TDS but doesn't deposit to government.

TDS paid in kind (impacts Section 276B context)	Prosecution possible	Prosecution removed	Criminal liability removed if paid in kind.
Section 477: TCS Non-Payment	Same as above	Same as above	When someone collects TCS (Tax Collected at Source) but doesn't deposit - Jeweller, Car Dealer, Scrap Dealer etc.
Section 478: Willful Tax Evasion	Tax evaded any amount - RI 3-7 years	Tax evaded > ₹ 50L - SI upto 2 Years, ₹10-50 L - SI Up to 6 months , < ₹10 L - Fine only	Deliberately evading tax through false accounts /billing , fake expenses, hidden income, bogus claims
Section 479: Non-Filing of Return	Tax on Undisclosed Income any amount - RI 3-7 years	Tax on undisclosed Income > ₹ 50L - SI up to 2 Years, ₹10-50 L - SI Up to 6 months, < ₹10 L - Fine only	Not filing return when required if there's tax impact.
Section 480 - Failure to Pay Self-Assessment	RI + fine	Tiered simple imprisonment/fin e	New slab-linked criminality.
Section 481 - Abetment of Tax Offences	Same as main offence	Tiered simple imprisonment/fin e	Still criminal if serious.
Section 482: False Statement	Tax Impact any amount - RI up to 3 years	Tax Impact > ₹ 50L - SI up to 2 Years, ₹10-50 L - SI Up to 6 months, < ₹10 L - Fine only	Giving false information in Return, Response to notice, Statements to officers

Section 483: Falsification Of Books			Maintaining false books, Destroying evidence, Fake vouchers, Bogus entries
Section 484 – Offences by Companies	Directors/officers deemed guilty automatically	Liability aligned with role & involvement	Reduces mechanical prosecution of directors.
Section 485 – Subsequent / Repeat Offences	Rigorous imprisonment 6 months – 7 years	Simple imprisonment 6 months – 3 years	Applies when offence committed after prior conviction. Minimum same, maximum halved.
Misreporting (Section 440 amendment)	Immunity limited	Immunity extended to misreporting	If additional tax paid.

EXPANDED IMMUNITY PROVISIONS – THE ULTIMATE EXIT ROUTE!

The Budget 2026-27 introduces a landmark shift in how tax disputes are resolved. By expanding the scope of Immunity, the government has provided a "Golden Escape Hatch" for taxpayers facing heavy penalties and prosecution, particularly in cases of misreporting and unexplained income. Under the new provisions (Sections 440 of IT Act 2025 / 270AA of IT Act 1961), immunity is no longer restricted to simple under-reporting. It now covers the most severe categories of tax defaults.

- **Expanded Scope:** Now includes Misreporting and Unexplained Income (Sections 102-106, e.g., unexplained cash/investments).
- **The Trade-off:** The taxpayer accepts the assessment and pays an "Additional Tax" in exchange for a 100% waiver of penalties and complete protection from prosecution.

Aspect	Under-Reporting of Income	Misreporting of Income	Unexplained Income (Secs 102-106)
Penalty rate (normal course)	50% of tax	200% of tax	200% of tax + prosecution
Immunity availability before Budget	✓ Available	✗ Not available	✗ Not available
Immunity availability after Budget 2026	✓ Available	✓ Available (New)	✓ Available (New)
Relevant amended sections	Sec. 270AA (IT Act, 1961) / Sec. 440 (IT Act, 2025)	Sec. 270AA (IT Act, 1961) / Sec. 440 (IT Act, 2025)	Secs. 102-106 read with Sec. 270AA / Sec. 440
Additional tax payable for immunity	100% of tax	100% of tax	120% of tax
Rationale for additional tax	Lower gravity default	Serious default but quantifiable	Most serious – no explanation

Tax rate (illustrative)	30%	25%	30% (special rate)
Illustrative income involved	₹10 lakh	₹1 crore	₹50 lakh
Tax amount	₹3 lakh	₹25 lakh	₹15 lakh
Interest (illustrative)	Nil / minimal	₹3 lakh	₹1.8 lakh
Penalty if immunity NOT claimed	₹1.5 lakh	₹50 lakh	₹30 lakh
Additional tax under immunity	₹3 lakh	₹25 lakh	₹18 lakh
Total outflow without immunity	₹4.5 lakh	₹78 lakh	₹46.8 lakh
Total outflow with immunity	₹6 lakh	₹53 lakh	₹34.8 lakh
Net financial impact of immunity	✗ Costs more by ₹1.5 lakh	✓ Saves ₹25 lakh	✓ Saves ₹12 lakh
Prosecution exposure without immunity	Low	High	Very high
Prosecution after immunity	Nil	Nil	Nil

Immunity recommended?	Generally No	Strongly Yes	Strongly Yes
Link with penalty-in-assessment	Penalty known upfront	Penalty known upfront	Penalty known upfront
Decision window	1 month from assessment order	1 month from assessment order	1 month from assessment order
Appeal allowed after immunity?	✗ No	✗ No	✗ No
Strategic takeaway	Appeal usually better	Immunity = best exit	Immunity = safest exit
Primary benefit	–	Major cost saving + certainty	Avoid prosecution + closure
Effective date of amendment	1 March / 1 April 2026	1 March / 1 April 2026	1 March / 1 April 2026

PENALTY DECIDED ALONG WITH ASSESSMENT – A MAJOR RELIEF FOR TAXPAYERS

- **What has changed (in one line):** Earlier: Tax decided first, penalty decided months or years later. Now: Tax and penalty will be decided together in ONE order. This applies to **new assessments from 1 April 2027 onwards.**

How things worked earlier (Old System)

Assessment order decided only tax, Penalty was started later as a separate case. You had to attend hearings twice, submit documents twice, face uncertainty for 1-2 years, Interest kept running even on penalty during appeals.

Result: Long delays, Higher interest cost, Repeated harassment, No final closure for years

What changes under Budget 2026 (New System):

Single integrated order will contain Income determination, Tax payable, Penalty (if any)

One set of hearings

One appeal

Immediate clarity on total liability

Interest will NOT run on penalty amount during appeal

Result: Faster closure, Lower interest cost, Less litigation, Peace of mind

Old vs New System – At a Glance

Aspect	Old System	New System (Budget 2026)
Number of orders	2 (Assessment + Penalty)	1 combined order
Hearings	Separate hearings	Single set of hearings
Time to closure	18–30 months	Much faster
Penalty certainty	Unknown for months	Known immediately
Interest on penalty during appeal	Yes	NO (big saving)
Documents & explanations	Submitted twice	Submitted once
Appeals	Separate appeals	Single appeal

Big Financial Benefit: Interest Saving

Earlier: Interest ran on **tax + penalty** during appeal, Even if you finally won, interest was already paid

Now: Interest runs **only on tax**, **Penalty amount does NOT attract interest until appeal is decided**. This can save lakhs (sometimes crores) in interest alone

What this means for you as a taxpayer: Clear benefits: You know your exact tax + penalty exposure immediately, No surprise penalty notices later, Faster case closure, Lower interest burden, Easier decision: Pay, Appeal, Settle, Take immunity

What you must do differently: During assessment itself, you must argue: Why income addition is wrong **AND** Why penalty should not apply (or should be lower). Penalty defence can no longer be postponed

Immunity & Settlement Become Easier: Since penalty is already mentioned in the order. You can clearly compare, fighting vs Taking immunity. One decision settle everything at once

When does this apply?

Date	What happens
1 Apr 2026	Law enacted
FY 2026-27	Transition year
From 1 April 2027	New system applies to fresh assessments

BLOCK ASSESSMENT RATIONALIZATION – FAIR TREATMENT FOR THIRD PARTIES

Block Assessment Changes: Fair Treatment for Third Parties**

Why this matters: Sometimes, the tax department searches someone else (supplier, customer, group company), but your name appears in their records. Even though you were never searched, you could still face a block assessment.

Budget 2026 corrects a long-standing unfairness in such cases.

What is a Block Assessment (in simple words)?

- During a search (raid) on Person A
 - The department finds evidence relating to Person B (you)
 - Person B can be assessed for undisclosed income, even without a search on them
 - This special assessment is called a Block Assessment
-
- **The Problem Earlier (Old System):** 10-year scrutiny for small issues even if undisclosed income related to just ONE year and the department could open 10 full years for assessment.
 - **Example (Old Rule):** Search on Mehta Trading (March 2024), one invoice shows Patel & Sons had undisclosed income in FY 2022-23. Patel & Sons could be assessed for FY 2013-14 to FY 2022-23 (10 years!). Disproportionate, stressful, and costly.

What Budget 2026 Changes (Good News)

Change 1: Block Period Limited for Third Parties.

- **New Rule:** If evidence shows undisclosed income for specific year(s) only, assessment is restricted to those years only.

Old vs New – Block Period

Situation	Old Rule	New Rule (Budget 2026)
Evidence for 1 year	10-year block	Only that 1 year
Evidence for 3 years	10-year block	Only those 3 years
Evidence for 5 years	10-year block	Only those 5 years

- **Golden Rule:** Block assessment years = years for which evidence actually exists.
- **Same Example – Now Under New Law:** Search reveals Patel & Sons' income only for FY 2022-23. Assessment limited to FY 2022-23 only. Other 9 years untouched. Huge relief in time, cost, and anxiety

Change 2: Clear & Fair Time Limit for Completion

Earlier problem: Department could issue multiple search authorisations, limitation period ran from the last authorisation, this allowed artificial extension of deadlines, different deadlines for different group members

New Rule (Uniform Limitation)

Aspect	Earlier	Now
Limitation starts from	Last search authorisation	First search authorisation (start of search)
Time available	12 months	18 months
Group cases	Different deadlines	One common deadline

Clock cannot be reset by issuing fresh authorisations.

Practical Effect: More certainty, no deadline manipulation, all connected parties know exactly when the case must end.

What Has NOT Changed (Important): For the main searched person, full block assessment still applies, department's search powers remain, tax, interest, and penalty still apply if undisclosed income is found, only scope and timelines are made fairer

Effective Date

- Applies to searches initiated on or after 1 April 2026
- Searches before that continue under old rules

What This Means for You: If you are a third party, You will not face 10-year scrutiny for a single-year issue, assessment limited strictly to years backed by evidence.

If you are part of a group search, one clear deadline for all, better planning and coordinated response.

Still important: If evidence exists, tax and penalty still apply, this is about fairness, not immunity.

PENALTY FOR NON-COOPERATION – THE ₹1,000 THAT NOBODY TOOK SERIOUSLY IS NOW ₹25,000

Higher Penalty for Non-Cooperation in Assessments

(Small Change, Big Practical Impact)

- **What has changed:** The maximum penalty for not providing information during assessment is increased:
- On paper, it looks minor. In practice, it changes behaviour and risk significantly.

Earlier: ₹1,000

Now: ₹25,000

What counts as “non-cooperation”?

During an assessment, the tax officer may ask for:

- Documents (invoices, bank statements, agreements)
- Explanations (source of funds, nature of transactions)
- Reconciliations
- Details of specific transactions or parties

If you:

- Ignore the notice, or
- Give incomplete / evasive replies

The officer can levy this penalty.

Why the earlier ₹1,000 penalty didn't work

- ₹1,000 was too small to matter
- Some taxpayers preferred to pay the penalty instead of explaining transactions
- It became a formality, not a deterrent

Why ₹25,000 changes the game For small and medium taxpayers

- ₹25,000 is real money
- Creates a strong incentive to respond properly
- Ignoring notices is no longer “cheap”

For large or sensitive cases

- ₹25,000 alone may not deter non-disclosure
- But non-cooperation now raises red flags
- It increases chances of
 1. Deeper scrutiny
 2. Reassessment
 3. Search / investigation
 4. Classification as unexplained income (leading to **200% penalty**)

The ₹25,000 penalty is often **only the first step**, not the real risk.

How this fits into the bigger reform picture

Reform	Effect
Higher non-cooperation penalty	Immediate cost
Penalty decided in assessment itself	Faster consequences
Unexplained income rules	Risk of very high penalties
Search & block assessment reforms	Faster, sharper action

Chain reaction risk: Non-cooperation → adverse inference → unexplained income → heavy penalty & prosecution risk.

UNEXPLAINED INCOME RATIONALIZATION – THE HEADLINE SAYS "LOWER TAX," BUT READ THE FINE PRINT

Unexplained Income – Tax Looks Lower, But Risk Is Higher. Headline you may read: "Tax on unexplained income reduced from 60% to 30%": Reality: Total cost **goes UP**, not down – unless you opt for **immunity and settle**.

What is "Unexplained Income"? (In simple terms)

If the tax department finds money or assets that you cannot properly explain, it is treated as unexplained income.

Typical examples:

- Cash deposits with no clear source
- Investments you can't justify
- Expenses without explained funding
- Gifts without proper proof

Burden of proof is on the taxpayer. If you can't explain, the law assumes concealment.

Old vs New System – The Numbers That Matter

Earlier System (Till 31 March 2026)

Particulars	Amount on ₹100
Tax @ 60%	₹60
Penalty (10% of tax)	₹6
Total cost	₹66
Prosecution	Possible (large cases)

New System (From 1 April 2026)

Two changes together:

- Tax rate reduced to 30%
- Penalty reclassified as “misreporting” → 200% of tax

Particulars	Amount on ₹100
Tax @ 30%	₹30
Penalty @ 200% of tax	₹60
Total cost	₹90
Prosecution	Still possible

Net effect: Even though tax rate halves, overall cost rises by 36%.

Why the Government Did This

- Earlier approach: High tax, light penalty
- New approach: Normal tax, very harsh penalty for concealment

Message is clear:

“Tax rate is fair. But hiding income will be punished severely.”

The Safety Valve: Immunity Option (Very Important)

If your case is weak, the law offers a **clean exit**.

Immunity Option

- Pay:
 1. Tax @ 30%
 2. **Additional tax @ 120% of tax**
- **No penalty**
- **No prosecution**
- Case ends immediately (no appeal)

Real Comparison (This Is the Key Table)

Scenario	Total cost on ₹100	Prosecution
Old system	₹66	Yes
New system – fight	₹90	Yes
New system – immunity	₹66	NO

- Same cost as old law, but prosecution risk eliminated

Worked Example (₹2 Crore Case)

Scenario	Total payout	Prosecution
Old system	₹1.32 crore	Possible
New system – fight	₹1.80 crore	Yes
New system – immunity	₹1.32 crore	NO

Immunity is clearly optimal if the explanation is weak.

Effective Date: 1 April 2026 (AY 2026-27 onwards)

PROSECUTION THRESHOLD UNDER BLACK MONEY ACT – ₹20 LAKH RELIEF

- What is the new rule: No criminal prosecution under the Black Money Act for non-disclosure of foreign assets up to ₹20 lakhs (aggregate value).
- Important exception: This relief does NOT apply to foreign immovable property. Any undisclosed foreign real estate remains prosecutable regardless of value.

What gets relief (≤ ₹20 lakhs, excluding property)

- Tax (30%) and penalty (90%) still apply
- No prosecution:
 - No FIR
 - No court case
 - No jail risk

Typical assets covered:

- Foreign bank accounts
- ESOPs / RSUs
- Foreign mutual funds
- Foreign insurance policies

What is still prosecutable

- Aggregate foreign assets above ₹20 lakhs
- Any foreign immovable property (even ₹1)
- Proceeds of crime
- Cases already under prosecution

Simple illustrations

- Small foreign investments / dormant accounts under ₹20L → Tax + penalty, no prosecution
- Same assets plus a foreign flat → Prosecution applies
- Large undisclosed foreign investments → Full prosecution

Effective date

- Retrospective from 1 October 2024
- Can help ongoing cases involving small foreign assets

FAST-DS 2026 – FOREIGN ASSETS AMNESTY SCHEME

What this is: FAST-DS 2026 is a **new one-time disclosure scheme** for taxpayers with undisclosed foreign assets, offering a chance to regularise them without prosecution. This is **not an amendment** – it is a **fresh amnesty law**.

Who should seriously consider this: Clients with undisclosed foreign assets such as:

- Old foreign bank accounts
- Overseas ESOPs / RSUs
- Assets acquired during foreign employment or deputation
- Foreign insurance policies
- Legacy assets from the pre-CRS / pre-AEOI era

Who is NOT eligible

- Cases where **prosecution has already started** under the Black Money Act.
- Assets that are **proceeds of crime**

No exceptions.

What the scheme offers: If the taxpayer voluntarily discloses:

- Pays **tax + prescribed fee** (rates to be notified)
- Immunity from prosecution under the Black Money Act
- Asset becomes **fully compliant going forward**.

Why this matters: If the department finds the asset through CRS data:

- Tax: 30%
- Penalty: 90% of tax
- Criminal prosecution
- Total exposure: ~57% of asset value + litigation

With FAST-DS:

- Lower cost
- No prosecution
- Clean exit and peace of mind

Key unknowns (awaiting notification)

- Who qualifies as a “small taxpayer”
- Exact tax / fee rates
- Time window (likely short)
- Declaration procedure

Client takeaway: If you have any undisclosed foreign asset and are not already under prosecution, FAST-DS 2026 is very likely your best – and possibly last – **structured exit route**. **Waiting for a notice is the worst strategy.**

Key Tax Reforms for Cooperative Societies

Dividend Pass-Through Relief (Section 149)

What changed

- Dividend pass-through deduction extended to the New Tax Regime
- Federal cooperatives allowed deduction for dividends received from companies, if further distributed to members

Impact

- No double taxation on dividends merely passing through cooperative layers
- Cooperatives can now opt for the new regime without tax leakage
- Federal cooperatives (e.g., dairy/fertilizer apex bodies) get targeted relief

Key conditions (for corporate dividends)

- Applicable only to notified federal cooperatives
- Investment made on or before 31 Jan 2026
- Deduction available for 3 years (AY 2026-27 to 2028-29)
- Dividend must be actually distributed

Expanded Deduction for Primary Cooperatives (Section 149(2)(b))

What changed: Two commodities added to the 100% deduction list:

- Cattle feed
- Cotton seeds

Conditions

- Produced by members of the cooperative
- Supplied to federal cooperatives / government / local authorities / government companies

Impact

- Corrects anomalies in the agri and dairy value chain
- Improves cash flows for dairy and cotton-based primary cooperatives

Inclusion of Multi-State Cooperatives (Section 2(32))

What changed: Cooperatives registered under the Multi-State Cooperative Societies Act, 2002 are now expressly covered under the Income-tax Act definition of "co-operative society"

Impact

- Multi-state cooperatives can now access all cooperative-specific tax benefits
- Removes exclusion faced by large national-level cooperative structures

Budget 2026–27: APA Reform – Refund Access for Associated Enterprises

What's Changed: Associated Enterprises (AEs) can now file modified returns and claim refunds for years covered by an Advance Pricing Agreement (APA), including rollback years.

Issue Before Budget 2026

- Only the entity that entered into the APA could file a modified return.
- In many cases, the Indian AE could not claim a refund, even where APA pricing reduced taxable income for past years.
- Result: Tax overpayments remained locked, despite pricing disputes being resolved.

Amendment Introduced (Section 169)

- Associated Enterprises are now permitted to file modified returns
- Refunds can be claimed strictly in line with APA terms

Key Conditions

- Applies to APAs entered on or after 1 April 2026
- Applicable for Tax Year 2026–27 onwards
- Modified return must be filed within 3 months from the end of the month in which APA is concluded
- Adjustment limited only to APA-agreed pricing

Practical Impact

- Enables actual cash recovery once APA is concluded
- Eliminates mismatch between pricing settlement and tax refund
- Particularly relevant for large transfer pricing adjustments (₹50–₹500 crore range)

What's Not Covered

- APAs signed before 1 April 2026
- Tax years prior to AY 2026–27
- Claims beyond APA scope

Effective Date: 1 April 2026 (AY 2026–27 onwards)

DATA CENTRE TAX EXEMPTION – 21-YEAR INCENTIVE

- **What's Changed:** Foreign companies can earn tax-free income for 21 years from procuring data centre services from approved Indian data centres.

Who Gets the Benefit

- Foreign companies procuring data centre services
- Services must be sourced from a "Specified Data Centre" in India
 - Approved under a MeitY-notified scheme
 - Owned and operated by an Indian company

What Income Is Exempt

- Income earned by the foreign company from procuring data centre services
- Exemption runs from AY 2026–27 to AY 2046–47 (till 31 March 2047)

Key Structural Conditions

- Indian data centre operator pays normal Indian tax on its service revenue
- If services are provided to Indian customers, they must be routed through an Indian reseller, which:
 - Earns margin
 - Pays Indian tax (subject to transfer pricing)

Why This Matters

- Makes India globally competitive with Singapore, Malaysia, UAE
- Provides long-term tax certainty (21 years) – critical for large infrastructure and AI/cloud investments
- Encourages:
 - Indian ownership of core digital infrastructure
 - Foreign capital without PE or profit attribution concerns

Effective Date: 1 April 2026 (AY 2026–27 onwards)

What's Changed: Foreign companies are exempt from Indian tax on income arising from providing capital goods, equipment, and tooling to Indian contract manufacturers.

Key Conditions (All Mandatory)

- Indian manufacturer must be a resident Indian company
- Manufacturing unit must be located in a Customs Bonded Area (Section 65, Customs Act)
- Goods manufactured must be electronic goods
- Manufacturing must be on behalf of the foreign company
- Indian manufacturer must receive consideration for manufacturing services

What Is Covered

- Manufacturing machinery and assembly lines
- Tooling: molds, dies, jigs, fixtures
- Testing and quality-control equipment
- Specialized equipment used in the manufacturing process

Not covered: Components that form part of the final electronic product

Duration: 5-year exemption: AY 2026-27 to AY 2030-31

Why This Matters

- Removes PE and income attribution concerns on equipment/tooling supplied by foreign brands
- Encourages global OEMs to scale Indian contract manufacturing
- Complements PLI and "Make in India" initiatives
- Indian manufacturer continues to pay tax on its manufacturing margin

Industries Impacted

- Smartphones and consumer electronics
- EV and automotive electronics
- Medical electronic devices
- Semiconductor assembly and packaging

Open Issues to Watch

- Boundary between capital equipment vs product components
- Expected CBDT clarifications on eligible items

Effective Date: 1 April 2026 (AY 2026-27 onwards)

TAX INCENTIVE FOR CRITICAL MINERALS EXPLORATION

Objective: Strengthen India's strategic mineral security by incentivising domestic exploration of critical minerals essential for EVs, renewables, semiconductors, and defence.

What's Changed: Critical minerals (e.g., lithium, cobalt, nickel, rare earths, graphite, tungsten) are now included in the list of minerals eligible for prospecting and development expense deduction

How the Deduction Works

- Exploration and development costs are capitalised
- Deduction allowed over 10 years, starting from the year commercial production begins
- Full recovery of qualifying expenditure through annual deductions

Why This Matters

- Puts critical minerals on par with conventional minerals for tax purposes
- Improves long-term project economics for high-risk exploration projects
- ends a strong policy signal supporting energy transition and supply-chain security

Key Limitation

- Deduction is available only if commercial production starts
- No benefit if exploration does not lead to viable production

Effective Date

- 1 April 2026 (AY 2026-27 onwards)
- Applies to exploration expenses incurred from this date

NRI SCHEME-BASED SERVICES EXEMPTION

Objective: Attract global expertise and NRIs to participate in Indian government programmes without exposing them to Indian tax on worldwide income.

What's Changed: Non-resident individuals rendering services in India under a notified Central Government scheme get an exemption on foreign-source income during their India engagement.

Who Qualifies

- Individual must be non-resident for 5 consecutive preceding tax years
- Visit to India must be under a notified government scheme
- Must satisfy prescribed conditions (to be notified)

What Is Exempt

- Income accruing or arising outside India (and not deemed to accrue in India)
- Exemption available for 5 consecutive tax years starting from the year of first visit

What Is Taxable

- Income earned in India, including:
 - Remuneration from the government scheme
 - Any other Indian-source income

Why This Matters

- Removes the fear of worldwide income taxation due to temporary Indian residency
- Makes India competitive in attracting:
 - Scientists and researchers
 - Semiconductor and AI experts
 - Climate, energy, and defence specialists
- Supports national missions without residency-based tax friction

What to Watch

- Government notification specifying eligible schemes
- Detailed conditions governing eligibility and compliance

IFSC TREASURY CENTRE RULES TIGHTENED

Objective: Protect IFSC tax incentives by preventing shell treasury structures, while ensuring genuine multinational treasury centres remain unaffected.

What's Changed: Conditions for inter-group loans/advances not being treated as dividends (and therefore remaining eligible for IFSC benefits) have been tightened.

New Safeguards Introduced: All of the following must now be satisfied:

1. Group entity must be in a notified foreign jurisdiction

- To be specified by the Central Government
- Likely limited to major, treaty-based economies (not tax havens)

2. Parent / principal entity must be listed in a specified country

- Only recognised, regulated stock exchanges will qualify

3. Clear definitions added

- Group entity: As per IFSCA Payment Services Regulations, 2024
- Parent / principal entity: Entity exercising control (>50% voting power or board control)

Practical Impact: Genuine treasury centres

- Listed parents on major exchanges
- Group companies in recognised jurisdictions
- Real treasury substance
- No impact

Aggressive / shell structures

- Minor exchange listings
- Tax-haven group entities
- Routing without substance
- ✗ IFSC benefit denied; loans treated as dividends

Why This Matters

- Complements the 20-year IFSC tax holiday (Section 19)
- Ensures long-term credibility of IFSC as a global financial centre
- Signals: "Incentives for real business, not paper structures"

What to Watch

Government notification of:

- Eligible foreign jurisdictions
- Specified countries / exchanges for listing

EFFECTIVE DATE: 1 APRIL 2026 (AY 2026-27 ONWARDS)

MAT REFORMS – THE OLD TAX REGIME IS FUNCTIONALLY DEAD FOR MOST COMPANIES

- This is a paradigm shift in corporate taxation. The old regime is being systematically rendered obsolete – not by abolishing it, but by making it structurally inferior. Old regime is being made unattractive. New regime is where MAT credit can actually be recovered.

Particulars	Continued OLD REGIME (Post Budget)	New Regime (Post-Budget)
MAT credit generation	MAT is final tax liability. No MAT Credit	No MAT. Hence, no MAT Credit
Past MAT Credit Utilization	MAT credit from past cannot be used here	MAT credit from past can be used here
Extent of Past MAT credit Utilization	-	25% per year
Future direction	Being systematically wound down	Government's preferred path

EFFECTIVE DATE: 1st April 2026 (Tax Year 2026-27 onwards).

THE DECISION FRAMEWORK FOR COMPANY CLIENTS:

Company Situation	Recommended Action	Reason
Old regime, has MAT credit	Switch to new regime	Only place to use the credit
Old regime, no MAT credit	Switch to new regime	Old regime MAT is now final – no recovery
New regime already	Stay. Use MAT credit if available	Already on the right side
Fresh/new company	Start in new regime	No reason to choose old regime
Old regime, heavy deductions	Evaluate carefully before 31 March 2026	Last chance to use old regime deductions before they become irrelevant

BUYBACK TAXATION – FROM DIVIDEND TO CAPITAL GAINS, WITH A PROMOTER SURCHARGE

Illustration

Particulars	No. of Shares	Cost / Buy Back Price per Share	Amount
Cost to Shareholder	1,000	50	50,000
Buy Back	1,000	200	200,000
Gain to Shareholder			150,000

Taxability

Before October 2024

In the hands of Shareholder:

- No Tax on Shareholder
- Income received from buy back exempted U/s 10(34A)
- No Capital Gain

In the hands of Company:

- Tax on Company (BDT) @23.30% on 1,50,000 U/s 115QA

October 2024 till Budget 2026 changes

In the hands of Shareholder:

- Deemed Dividend U/s 2(22)(f) at normal rate on ₹ 2,00,000. Tax on Entire receipt and not on the Gains.
- Exemption U/s 10(34A) removed.
- Cost of Acquisition of ₹ 50,000 not allowed to be deducted U/s 57
- ₹ 50,000 Cost of Acquisition is considered as Capital Loss U/s 46A to be carried forward for set off.

In the hands of Company:

- No Tax on Company, shareholder pays the tax on deemed dividend
- TDS@10% by Company
- Section 115QA no longer applicable to buybacks

Budget 2026 changes

In the hands of Shareholder:

- LTCG 12.5% or STCG 20%, as the case may be, on ₹ 1,50,000 for all shareholders (Promoters or non-promoters)
- Additional Tax on LTCG @ (30% - 12.5%) or STCG @ (30% - 20%) on Promoter Shareholders (Other than Individuals / HUF) U/s 69A of IT Act 2025.
- Additional Tax on LTCG @ (22% - 12.5%) or STCG @ (22% - 20%) on Promoter Shareholders (Individuals / HUF) U/s 69A of IT Act 2025.

In the hands of Company:

- No Tax on Company

EFFECTIVE DATE: 1st April 2026 (Tax Year 2026-27 onwards).

INTEREST DEDUCTION ON DIVIDEND / MUTUAL FUND INCOME REMOVED

- What is changing: Interest paid on loans taken to invest in shares or mutual funds will no longer be deductible at all against dividend or mutual fund income.
- Earlier, a deduction was allowed up to 20% of such income. This is now fully withdrawn.

Who is impacted

- **Margin-funded investors** (broker loans for equity)
- **Leveraged portfolio investors**
- **Companies / holding structures** earning dividends from borrowed investments.

Illustration:

Dividend income: ₹5,00,000, Interest on investment loan: ₹2,40,000

Earlier: Deduction allowed: ₹1,00,000, Taxable income: ₹4,00,000

Now: Deduction: Nil, Taxable income: ₹5,00,000, Extra tax (30% slab): ₹30,000 per year

Impact: Debt-funded equity investing becomes less tax-efficient. After-tax returns on leveraged portfolios decline

SOVEREIGN GOLD BOND (SGB) CAPITAL GAINS EXEMPTION

What is clarified:

The capital gains exemption on SGB redemption is available only if all conditions are met.

Conditions for exemption (all mandatory)

- Subscribed at original issue (directly from RBI, not bought on stock exchange)
- Held till maturity
- Applies to all RBI-issued SGB series

Practical impact

How SGB was bought	How it is held	Exemption
Original issue (RBI)	Till maturity	✔ Yes
Original issue	Sold early	✘ No
Secondary market	Till maturity	✘ No
Secondary market	Sold early	✘ No

Key takeaway:

Big clarification: SGBs bought from the secondary market are **NOT tax-free** on maturity: Capital gains tax applies on redemption value minus purchase price

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Key takeaway:

Big clarification: SGBs bought from the secondary market are **NOT tax-free** on maturity: Capital gains tax applies on **redemption value minus purchase price**

STT INCREASE ON F&O TRADES

What is changing: Securities Transaction Tax (STT) on futures and options is being increased sharply.

New STT rates:

- Futures (sale): 0.02% → 0.05% (+150% / 2.5x)
- Options (sale on premium): 0.10% → 0.15% (+50%)
- Options (exercise on intrinsic value): 0.125% → 0.15%

Why this matters: Futures traders are hit the hardest. STT becomes a material cost, not a rounding error

Illustration (Futures trader): Annual futures volume: ₹600 crore. STT earlier: ₹12 lakh. STT now: ₹30 lakh → Extra cost: ₹18 lakh per year
→ ~18% hit if annual profit is ₹1 crore

Options traders: Additional cost roughly ₹6 lakh per year on ₹10 crore monthly premium turnover

Government intent: To **discourage excessive speculative F&O trading** amid exploding retail volumes. However, **hedgers and genuine risk managers are also impacted** – STT makes no distinction.

Effective date: 1 April 2026 (FY 2026–27 onwards). Applies to trades executed on or after this date.

PROCEDURAL CLARIFICATIONS – THE GOVERNMENT CLOSES LITIGATION LOOPHOLES (RETROSPECTIVELY)

Reassessment Jurisdiction Clarified

What is clarified: Reassessment notices under Sections 148A and 148 must be issued by a regular Assessing Officer (AO) – not by NaFAC.

How reassessment now clearly works:

- **Stage 1 (Pre-reassessment):** Regular AO issues 148A notice → conducts inquiry → issues 148 notice
- **Stage 2 (Assessment):** Case is transferred to NaFAC for faceless assessment under Section 144B

Impact:

- Applies retrospectively from 1 April 2021
- Validates past reassessments where NaFAC's role was challenged
- Technical objections on this ground will no longer succeed
- Substantive challenges (no escapement of income, invalid information, etc.) remain open

Key takeaway: Reassessment **cannot be struck down** merely because NaFAC was involved at the notice stage. Future litigation must focus on **merits, not jurisdictional technicalities**.

DIN Requirement Relaxed

What is clarified: An assessment will not be treated as invalid merely due to technical defects in how the DIN (Document Identification Number) is mentioned.

What is now sufficient: DIN can appear anywhere, in the order, or in the covering email / communication. Minor formatting errors or absence of DIN on every page will not invalidate the order.

What is NOT protected: Cases where no DIN was generated at all. The DIN must exist and must relate to the assessment.

Impact: Applies retrospectively from 1 October 2019. Purely technical DIN-based challenges will fail. Past appellate wins based only on DIN defects may now be reversed.

TPO Timeline Clarified

What is clarified: For transfer pricing cases, the requirement that the TPO order be passed at least 60 days before the assessment limitation date now clearly includes the limitation date itself in the 60-day count.

What this means: The department gets one additional day. Orders earlier challenged as “one day late” are now valid

Example: Limitation date: 31 December 2026 → TPO order due by 1 November 2026 (not 2 November)

Impact: Applies retrospectively from 1 June 2007. Validates past TPO orders challenged only on this timing issue. Fresh procedural challenges on this ground are closed

Key takeaway: Transfer pricing disputes cannot succeed on this technical timeline point. Challenges must now focus on pricing methodology, comparables, and margins, not dates.

DRP Timeline Clarified (Section 144C)

What is clarified: For Dispute Resolution Panel (DRP) process for international tax cases, the assessment now clearly runs on two separate timelines, not one combined deadline.

Two-stage time limits

1. Draft Assessment Order

Must be issued within the normal assessment time limit (Section 153 / 153B).

2. Final Assessment Order

Must be passed within 1 month from the end of the month in which DRP directions are received, even if this is after the normal assessment deadline.

Illustration: Section 153 limitation: 31 December 2024, Draft order issued: 20 December 2024 ✓ (within limitation), DRP directions received: 15 July 2025, Final order due: 31 August 2025 (1 month from end of July), OLD argument: Final order after 31.12.2024 = time-barred ✗,

NEW position: Final order valid – draft order was within time, final order within 144C (4) timeline ✓

PROVIDENT FUND RATIONALISATION

- Budget 2026 removes obsolete PF rules relating to employer contribution limits and investment conditions.
- These rules are redundant due to Section 17(1)(h), which caps tax-free employer contribution at ₹7.5 lakh per year.
- Removed provisions include:
 1. Mandatory matching of employer and employee contributions
 2. Percentage-based contribution caps
 3. Outdated salary thresholds
 4. Separate limits for employee-shareholders
 5. Mandatory 50% investment in Government securities
- Key operational change: PF funds gain greater investment flexibility; outcomes depend on EPFO policy.
- Client impact: No change in tax economics; compliance processes should be updated.

Rule removed	What it said	Why redun
Paragraph 4(c)	Employer contribution must match employee contribution	₹7.5L cap governs anyway
Paragraph 5(4)	Discretionary contribution only if salary > ₹500	Outdated threshold
Paragraph 6(a)	Employer contribution capped at 12%	₹7.5L cap governs
Part C, Para 1(d)	Different limits for employee-shareholders	Unnecessary distinction
Part C, Para 1(e)	50% of PF corpus must be in Government securities	Outdated investment constraint

The 50% G-Sec cap removal is the most significant operationally. It allows PF funds to invest more flexibly – in corporate bonds, equities, and other.

NEW TAX REGIME AS DEFAULT (SECTION 202)

- New tax regime continues as the default regime. Budget 2026 strengthens its application.
- Applies by default to:
 - Return filing (assessment)
 - Advance tax computation
 - Salary TDS
 - All special cases under the Act
- Old regime available only on explicit opt-out under Section 202(4).
- For salaried employees:
 - If no declaration is given, employer must deduct TDS under new regime.
 - Employees claiming deductions (80C, HRA, housing loan interest) must opt out in time.
- Failure to opt out may result in higher TDS and refund at return filing stage.
- Effective from: 1 April 2026 (AY 2027-28).
- Professional impact: Requires proactive client communication and early regime selection.

Block Assessment Rationalization

1) Block Assessment Rationalization

- The Budget 2026-27 introduces fairness and procedural certainty to Block Assessments (assessments covering multiple years following a tax search). The focus is on protecting third parties from disproportionate scrutiny and preventing the artificial extension of assessment deadlines.
- Currently, if a search on "Person A" reveals undisclosed income for "Third Party B" (e.g., a supplier or family member) in just one year, the Department can assess Third Party B for a full 10-year block.
- The Change: For searches initiated on or after April 1, 2026, the block assessment for third parties is strictly limited to the specific years for which evidence of undisclosed income is found.
 - **Impact:** If evidence exists only for FY 2022-23, the assessment is limited to that year. The other 9 years of the client's records remain untouched.
 - **Benefit:** Massive reduction in legal fees, compliance anxiety, and the "fishing expeditions" often conducted by the department

Aspect	Position before Budget 2026	Amendment introduced (Budget 2026)	Implications / Impact	Illustration
Concept of block assessment for third parties	Third parties identified during a search on another person could be subjected to block assessment	Concept retained, but scope rationalised	Third parties still assessable, but with proportionate exposure	Search on Company A reveals income of Company B
Block period for third parties	Mandatory 10-year block (irrespective of year to which undisclosed income relates)	Block limited only to specific year(s) for which evidence exists	Major relief to third parties; avoids unnecessary scrutiny of clean years	Undisclosed income found only for FY 2022-23 → block limited to FY 2022-23 only
Underlying principle	One piece of evidence could trigger full 10-year scrutiny	Evidence-linked assessment	Assessment becomes proportionate and evidence-based	If evidence exists for FY 2020-21 & 2022-23 → only those 2 years covered
Treatment of searched person (primary target)	Full 10-year block	No change	Department's power over main searched person remains intact	Searched entity still assessed for entire block
Limitation period – reference point	From last search authorisation (could be multiple)	From initiation of search (first authorisation)	Prevents artificial extension of time limits	Multiple authorisations no longer reset the clock
Time limit for completion	12 months from end of quarter	18 months from end of quarter	More time for department, but greater certainty for taxpayer	Search initiated in Mar 2024 → deadline Sep 2025
Group / connected searches	Different limitation dates for different group entities	Single uniform limitation date for entire group	Consistency, predictability, coordinated compliance	All group entities share same assessment deadline
Risk of procedural misuse	High (fresh authorisations extended deadlines)	Curtailed of misuse	Fairer process, reduced litigation	Deadlines can no longer be pushed indefinitely
Compliance burden on third parties	Very high (10 years of records & litigation)	Significantly reduced	Lower cost, time, and anxiety	Defence limited to relevant year(s) only
Effective date	–	Applicable to searches initiated on or after 1 April 2026	Prospective application	Older searches continue under old law

Important Disclaimer & Caveats

- ➔ The views expressed are those of Rekhani and Saraogi, Chartered Accountants, based on an interpretation of the Finance Bill and may not reflect the views of the Government or any authority.
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