

# KEY HIGHLIGHTS: UNION BUDGET 2026

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**Income-tax Act, 2025 (replacing the Income-tax Act, 1961) will be in force from 1 April 2026. The Hon'ble Finance Minister announced that the simplified Income tax rules and forms will be notified shortly.**

**Some of the key announcements of the Budget 2026 are discussed below**

## INCOME TAX PROVISIONS

### Tax rates kept constant

- No changes have been proposed in the tax rates for individuals, Hindu Undivided Families ('HUFs'), firms or companies.
- In order to encourage companies in the old regime to move to the new tax regime, it is proposed that MAT paid under the old regime will be treated as final tax and no new MAT credit will be allowed. The MAT rate is proposed to be reduced from 15% to 14% of book profit and MAT credit set-off will be allowed only under the new regime, limited to 25% of tax liability.

## CHANGES IN RELATION TO FILING OF INCOME TAX RETURNS

The proposed updated due dates for filing a return of income are as under:

Category	Due date
Individuals (ITR 1 and 2)	31 July
Non audit business and trusts	31 August
Company, audited entity, partner of a firm subject to audit	31 Octoberw
Assessees where transfer pricing is applicable	30 November

- The present time limit for filing revised return of income (9 months from end of the financial year – December 31) is proposed to be extended to 12 months from the end of the financial year (March 31), subject to payment of a fee.
- It is proposed to permit updated return to be filed even in cases of reduction of losses. Further, taxpayers can update returns even after re-assessment proceedings are initiated, by paying additional 10% tax, enhancing voluntary compliance.

**GIFT CITY – IFSC UNITS**

- Tax holiday for IFSC units proposed to be extended to 20 consecutive years out of 25 years (from the present 10 years out of 15 years) and is followed by a concessional 15% tax rate on business income after the holiday period

**BUYBACK TAX**

- Rolling back partly the amendment brought in last year, it is proposed that buyback proceeds will be taxed as capital gains for all shareholders (as compared to dividend which was the treatment brought in by Budget 2025). Promoters will be subject to additional buyback tax, signalling anti-abuse intent.

**HIKE IN SECURITIES TRANSACTION TAX (STT) RATES FOR FUTURES AND OPTIONS**

- Following the last hike in STT rates in 2024, the Budget 2026 proposes to increase the STT on future and options as under

Transaction Type	Existing STT rate	Proposed STT rate	Basis of Levy
Option (not exercised)	0.10%	0.15%	Option premium
Option (not exercised)	0.125%	0.15%	Intrinsic price
Futures	0.02%	0.05%	Traded price

- It may be noted that the commodities transaction tax (CTT) has not been hiked.

**KEY CHANGES IN ASSESSMENT, PENALTY AND APPELLATE PROCEEDINGS**

- It is proposed to integrate assessment and penalty proceedings by issuing a common order
- Immunity from penalty and prosecution proposed to be extended to cases of misreporting, and not just underreporting, subject to payment of additional 100% tax available for cases of misreporting as well.
- It is proposed to reduce the quantum of tax to be paid in advance/ deposited for contesting the assessment order from 20% to 10%, calculated only on base tax demand. (Announced in the budget speech)



## TAXATION OF SOVEREIGN GOLD BONDS

- It is proposed to clarify that the capital gains exemption applicable to SGBs will apply only if SGBs are purchased directly from RBI and held till maturity. Therefore, secondary market purchases will not get this benefit, and will be subject to tax.

## APPLICATION FOR LOWER DEDUCTION OF TAX FOR SMALL TAXPAYER

- For small taxpayers (category to be prescribed), it is proposed that an application for issuance of certificates for lower rate or nil deduction of tax may be made electronically to the prescribed income-tax authority.
- The prescribed income-tax authority shall examine the application electronically and issue the certificate subject to fulfilment of conditions as may be prescribed, or reject the application if prescribed conditions are not fulfilled or the application is incomplete. Rules in this regard will be notified.

## OTHER KEY PROPOSALS

- It is proposed to restrict the deduction of interest on borrowed funds against dividend income (currently permitted upto 20% of the dividend income).
- Due date to deposit employee contributions to funds (PF, ESIC etc) proposed to be aligned with the return-filing due date, which would result in reducing disputes and litigation on this matter.
- Tax rate on unexplained credit, unexplained investment proposed to be reduced to 30% as against 60%.
- TCS provisions rationalised: e.g., scrap, minerals, and liquor unified at 2% and TCS on Liberalised Remittance Scheme (education/medical) cut to 2%; Also, TCS on overseas tour package standardised at 2% with threshold removed.
- Tax holiday proposed until 2047 for foreign companies providing cloud service by setting up Indian data centres and serving customers locally through an Indian re-seller entity. Related Entities providing data center services from India to get a safe-harbour of 15%.
- It is proposed to convert penalty into fee to be charged per day of the default subject to a maximum ceiling on failure to get accounts audited, penalty for non-furnishing of TP report and penalty for default in furnishing statement for financial transactions or reportable account.

- Software development services, IT enabled services, knowledge process outsourcing services and contract R&D services relating to software development are all proposed to be clubbed under a single category of Information Technology Services with a common safe harbour margin of 15.5 % (announced in Budget speech)

## ONE TIME FOREIGN ASSET DISCLOSURE SCHEME

- Introduced for small taxpayers as a one-time foreign asset disclosure window (6 months) and applicable where the foreign asset value is below prescribed threshold
- Help resident individuals regularise historical overseas investment non-disclosures -
- Undisclosed foreign income/assets up to ₹1 crore - 30% tax + 30% penalty
- Tax already paid but asset not disclosed (up to ₹5 crore) - ₹1 lakh penalty

## INDIRECT TAX PROPOSALS

**There has not been any change in the duty rate on gold dore/ silver dore and only a sunset clause (31 March 2027) has been included.**

**The Hon'ble FM in her speech also mentioned that to address the concerns arising about utilization of capacities by manufacturing units in the Special Economic Zones (SEZ) due to global trade disruptions, a special one-time measure is proposed to facilitate sales by eligible manufacturing units in SEZs to the Domestic Tariff Area (DTA) at concessional rates of duty. The fine print of the notification in this regard will have to be seen.**

In case you wish to further discuss any of the above issues in detail or understand the applicability in your case, you can reach out to us at the following: [bnvcaoffice@gmail.com](mailto:bnvcaoffice@gmail.com), [bnv1964@yahoo.co.in](mailto:bnv1964@yahoo.co.in), and [bhaktivaidyaassociates@gmail.com](mailto:bhaktivaidyaassociates@gmail.com).

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