

Direct Tax

S. No.	Budget Proposals	Key points
<i>New Direct Tax Law</i>		
1	New income-tax Act 2025	<ul style="list-style-type: none"> • New Income-tax Act 2025 set to be applicable from April 1, 2026. Simplified rules and forms to be introduced shortly. • No changes proposed in corporate tax rates.
<i>Minimum Alternate Tax (MAT) for Companies (other than IFSC)</i>		
2	MAT Provisions overhauled	<p>Old Regime</p> <ul style="list-style-type: none"> • Reduction of MAT rate from 15% to 14% (effective tax rate 16.307%) from April 1, 2026. • Tax paid under MAT to be considered as final tax and consequently, no new MAT credit to be allowed to be carried forward. <p>New Regime</p> <ul style="list-style-type: none"> • MAT credit generated up to March 31, 2026, allowed to companies opting new regime from/ after tax year 2026-27. • MAT credit set-off allowed up to 25% of the tax liability. <p><i>(Effective from April 1, 2026)</i></p>
<i>Key amendments for non-resident taxpayer</i>		

3	Tax holiday for foreign cloud service providers (CSPs)	<ul style="list-style-type: none"> • Tax exemption to foreign CSPs until March 31, 2047 on income earned by providing cloud services to customers using data centres from India. • Exemption will be available only when the data centre is owned and operated by an Indian Company. • Services by such foreign CSP to customers in India should be made through an Indian reseller entity. • Govt will come out with further rules to notify eligible foreign CSP and conditions for availing such benefit. • Safe-harbour of 15% proposed for Indian company providing data Centre services to related foreign CSP. <p>(Effective from April 1, 2026)</p>
4	Exemption to foreign companies for supply of capital goods	<ul style="list-style-type: none"> • Exemption to foreign companies on income arising from supply of capital goods, equipment, or tooling to an electronic goods manufacturer located in a custom bonded area up to tax year 2030–31 - Possible exemption from tax on equipment royalty, certainty on Equipment PE <p>(Effective from April 1, 2026)</p>
Tax certainty – Clarificatory amendments to settle long-standing issues		
5		<ul style="list-style-type: none"> • Statutory timeline to issue the final assessment order excludes time provided for proceedings before the Dispute Resolution Panel.

6		<ul style="list-style-type: none"> Considering divergent High Court rulings on whether National Faceless Assessment Centre (NFAC) can issue reassessment notices, it is proposed to be clarified that reassessment notice under faceless proceedings can be issued by Jurisdictional Assessing officer
7	Retrospective amendments on certain procedural matters	<ul style="list-style-type: none"> Various High Courts have held assessments as invalid due to non-quoting of Document Identification Number (DIN) on the order It has been clarified that assessments will not be invalid merely due to any mistake, defect or omission in quoting DIN
8	Deduction of employees' social security contribution	<ul style="list-style-type: none"> Deduction for deposit of Employee's contribution to Provident Fund now allowed if paid until the due date of filing of tax return. Earlier allowed only where such contribution was paid within due dates prescribed under respective law. <p><i>(Effective from April 1, 2026)</i></p>
<u>Audit Procedures and filing of returns</u>		
9	Penalty Proceedings	<ul style="list-style-type: none"> Penalty for under reporting or misreporting of income to be imposed by the tax officer at the time of issuing assessment order itself with such penalty forming part of the demand raised. [Effective from order issued post 1 April 2027] Interest on delayed payment of penalty shall be levied only after the disposal of the first appeal proceedings [CIT(A)/ Tribunal]
10	Stay of demand	<ul style="list-style-type: none"> Proposal to reduce the pre deposit requirement from 20% to 10% for appeal cases (detailed rules and guidelines are awaited)

11	Revised Returns	<ul style="list-style-type: none"> • Extension of timeline for filing revised return up to Mar 31 subject to payment of nominal fee where revised return is filed beyond Dec 31 (Effective from April 1, 2026)
12	Updated Returns	<ul style="list-style-type: none"> • Updated return can now also be filed under following cases: <ul style="list-style-type: none"> ○ Where there is reduction of losses in comparison losses claimed in original return of income, subject to payment of additional tax; and ○ Where reassessment proceedings are initiated, and notice has been issued (<i>subject to additional payment of income tax at 10% of tax and interest</i>)
<i>Transfer Pricing</i>		
13	Safe Harbour Rules	<ul style="list-style-type: none"> • Announcements relating to rationalization of Safe Harbor provisions for IT Sector (<i>detailed rules and guidelines are awaited</i>): <ul style="list-style-type: none"> ○ Wide range of services proposed to be clubbed under the category of IT Services (viz, IT enabled services, contract R&D for software development, KPO) with a safe harbor margin of 15.5%. ○ Threshold for eligibility to apply Safe Harbor increased from current INR 300 crore (~ USD 33 million) to INR 2,000 crore (~ USD 222 million).
14	Amendments to the Advance Pricing Agreement (APA)	<ul style="list-style-type: none"> • Fast-track Unilateral APA process for IT services targeted for completion within 2 years (detailed rules and guidelines are awaited). • The Associated Enterprises of the entity entering into APA may also file modified returns.
<i>Other key updates</i>		

15	Buyback of shares	<ul style="list-style-type: none"> Buyback of shares proposed be taxed under the head “Capital Gains” as against existing taxation akin to as dividend income. For promoters (directly or indirectly holding >10%), additional tax levied to equate the tax rate to 22% for domestic company, 30% for other promoters. <p>(Effective from April 1, 2026)</p>		
16	Rationalization of withholding tax (TDS/ TCS) provisions	<ul style="list-style-type: none"> ‘Supply of manpower’ to be brought within the ambit of ‘work’ thereby attracting TDS at 1%/2%, as applicable. Proposal to electronic verification for issue of Lower / Nil TDS certificate for small taxpayers (yet to be defined) wherein certificate to be issued if prescribed conditions are satisfied. 		
17	Proposed changes in TCS rates	Nature of payments	Existing	Proposed
		Foreign remittance for overseas tour packages	<ol style="list-style-type: none"> 5% up to INR 1 million (~ USD 11k) 20% above INR 1 million (~ USD 11k) 	2%
		Other Liberalised Remittance Scheme (LRS) exceeding INR 1 million (~ USD 11k)	<ol style="list-style-type: none"> 5% - education or medical treatment 20% - other purposes 	<ol style="list-style-type: none"> 2% - education or medical treatment 20% - other purposes

		<i>(Effective from April 1, 2026)</i>
18	Rationalization of penalty provisions	<ul style="list-style-type: none"> • Conversion of ‘Penalty’ into ‘Fee’ for technical failures: <ul style="list-style-type: none"> ○ Failure to obtain tax audit report (Form 3CA/3CD): INR 75,000 for delay upto 1 month and INR 150,000 thereafter ○ Failure to obtain Transfer Pricing report (Form 3CEB): INR 50,000 for delay upto 1 month and INR 100,000 thereafter ○ Failure to furnish the Statement of Financial Transactions: Fee of INR 200 for every day of delay with an upper limit of INR 100,000 (no limit in the existing provisions) • Immunity from penalty to be extended for cases involving misreporting of income as well with payment of additional 100% of tax (normal additions) / 120% (undisclosed income/ expenditure, etc.)
19	Disclosure Scheme for ‘Foreign Assets of Small Taxpayers’	<ul style="list-style-type: none"> • A one-time scheme proposed for small taxpayers to voluntarily disclose and resolve legacy foreign asset or income non-compliances (viz., undisclosed foreign assets such as ESOPs, RSUs, low value foreign bank account, etc.) • Immunity to be granted from penalty and prosecution
20	Tax holiday for India based IFSCs in GIFT City	<ul style="list-style-type: none"> • Tax holiday for IFSC units set up in GIFT City extended to 20 years, concessional tax rate of 15% post 20 years

In addition to the above, the following may be noted:

- Foreign exchange Non-Debt Instruments Rules will be comprehensively reviewed to make the foreign investment framework more modern and investor friendly.
- The Electronics Components Manufacturing Scheme will have its outlay significantly enhanced to INR 40,000 crore to strengthen India's electronics value chain.
- The India Semiconductor Mission (ISM) 2.0 will be rolled out to support next generation semiconductor fabrication, assembly, testing, design, and innovation.

Goods and Services Tax

- 1. Export rule liberalisation by way of deletion of 'intermediary' provisions:** Amendment proposed to section 13(8) of IGST Act to delete clause (b) relating to intermediary services. Now, the place of supply for "intermediary services" will be determined as per the default provision, i.e. under section 13(2), i.e., the location of recipient of such services. This is a welcome amendment and is intended to give legal backing to the announcement made in the 56th Council meeting. This move will unlock export benefits for Indian service providers and significantly reduce litigation.
- 2. Simplification of post-supply discount provisions -** Amendments proposed in section 15 and section 34 of the CGST Act, 2017 to omit the condition that discounts must be pre-agreed and linked to invoices and allowing businesses to offer such discounts by issuing a GST credit note. This is a welcome amendment and a win for the FMCG companies. This will allow businesses to offer discounts flexibly, based on actual sales performance or market conditions.
- 3. Simplification of inverted duty structure refunds:** Amendment proposed to section 54(6) of CGST Act, 2017, to extend the provisions of provisional refund to refunds arising out of inverted duty structure.

- 4. Dispute resolution** - Amendments have been proposed to empower the Government to notify and authorize any existing Authority or Tribunal to hear appeals filed under Section 101B, until the National Appellate Authority (NAA) under Section 101A of the CGST Act is formally set up. Further, if a Tribunal has been given powers under sub-section (1A), then the provisions of sub-sections (2) to (13) will NOT apply in those cases. This will result in expeditious disposed of cases and reduce backlog.

Special Economic Zones (SEZ)

- 5. SEZ reforms for manufacturing units** - Special one-time measure to facilitate sales by eligible SEZ manufacturing units to the Domestic Tariff Area (DTA) at concessional rates for a prescribed proportion of their exports. Necessary regulatory changes will be undertaken to operationalise these measures while ensuring level-playing field for the units working in the DTA.

Customs

- 6. Strengthening AEO (Authorised Economic Operator) Ecosystem**
- Duty deferral period doubled for Tier 2 and Tier 3 AEOs from 15 days to 30 days, significantly improving importer cash flow.
 - Duty-deferment facility has also been extended to eligible manufacturers-importers till 31 March 2028. This will encourage importers to enrol into the AEO program.
 - Government agencies will now leverage AEO accreditation for preferential treatment in clearing cargo, reducing delays for trusted supply chains.
 - AEO-recognised importers with long-standing clean records will face minimal verification, as their consignments will be low-risk by default.
 - Export cargo using electronic seals will now receive direct factory-to-ship clearance, reducing port dwell time.

Impact: Faster cargo movement, simplified compliance, lower working-capital blockage, and better predictability for trusted supply-chain partners.

7. Single Window and Digital Trade Facilitation

- A fully interconnected Single Window for cross-agency approvals will be rolled out by the end of FY27.
- By April 2026, all food, drug, plant, animal, and wildlife clearances (which form ~70% of interdicted cargo) will move to this digital window.
- Customs Integrated System (CIS) to be launched in two years as a unified, scalable platform for all customs processes.

Impact: End-to-end digitisation, faster inter-agency processing, fewer physical touchpoints, and increased transparency.

8. Cargo Clearance and Risk Management Reforms

- Auto goods registration facility provided to AEO T2 and AEO T3 entities, approved eligible manufacturer importers, importers having longstanding supply chain, importers availing facility of Direct Port Delivery.
- For goods not requiring compliance check, auto Out of Charge facility will be provided to all eligible importers subject to payment of duty.
- System-based Examination Application introduced on ICEGATE providing for e- scheduling of physical examination of imported goods.
- Trusted importers with clean supply-chain history will face reduced examination, improving predictability.
- Expanded use of non-intrusive inspection technologies (AI-enabled scanners) aims to scan every container at major ports in phases.
- End to end automated clearance from factory premises to the ship to be granted for exports with e-sealed cargo.

Impact: Faster and contactless clearance, reduced cost and greater transparency.

9. Warehousing Framework – Major Overhaul

- Customs warehousing is being transformed into a warehouse-operator-centric system, shifting away from officer-dependent approvals.
- Removes the need to get prior approval from a customs officer before transferring goods from one bonded warehouse to another.

Impact: Lower administrative friction and faster processing for bonded warehouse operations — highly beneficial for import-based manufacturing.

10. Courier, E-Commerce & Baggage Facilitation

- Value cap on courier exports (₹10 lakh per consignment) removed. This would support MSME and D2C exporters.
- Clearance of returned/rejected consignments simplified.
- New Baggage Rules modernised for present-day travel patterns.

Impact: These reforms streamline cross-border e-commerce and passenger movement. Removing the ₹10-lakh courier export cap boosts MSME and D2C export potential, while simplified handling of returns reduces delays and costs. Updated Baggage Rules make airport clearance faster and reduce passenger disputes

11. Advance Ruling Reforms

- Validity of Advance Rulings extended from 3 years to 5 years, providing longer certainty to importers.
- Existing rulings can be extended by 5 more years upon applicant request.

Impact: Greater stability in tax positions and better long-term planning for investment and contract structuring.

12. Key duty rate changes:

Product	Current Rate	New Rate (Post-Budget)	Change (Increase / Decrease)	Sectors Likely Impacted
Monazite	2.50%	Nil	Decrease	Critical Minerals
Sodium antimonate for use in manufacture of solar glass	7.50%	Nil	Decrease	Renewable Energy - Solar glass manufacturing
Specified capital goods for manufacture of Li-ion cells for Battery Energy Storage Systems	As applicable	Nil	Decrease	Renewable Energy- Battery Storage

Specified goods for generation of nuclear power including control and protector absorber rods, burnable absorber rods	7.50%	Nil	Decrease	Nuclear Energy
Specified goods for use in the manufacture of Microwave Ovens	As applicable	Nil	Decrease	Electronics
Components/parts including engines of aircraft for manufacture of aircraft	As applicable	Nil	Decrease	Aviation
Raw materials for manufacture of parts of aircraft for maintenance, repair, or overhauling of aircraft or components or parts of aircraft, including engines, when imported by Public Sector Units under the Ministry of Defence	As applicable	Nil	Decrease	Defense
17 new drugs/medicines	5% / 10%	Nil	Decrease	Drugs / Medicines
All dutiable goods imported for personal use	20%	10%	Decrease	Personal Imports
Potassium Hydroxide	Nil	7.50%	Increase	Chemical
Umbrellas (other than garden umbrellas)	20%	20% or Rs. 60 per piece, whichever is higher	Modification / Increase	Consumer Product

13. Jurisdiction Expansion

- The Customs Act, 1962 is being amended to extend its jurisdiction beyond India's territorial waters specifically for fishing and fishing-related activities, enabling customs oversight for Indian-flagged fishing vessels operating in these areas.

14. Amendment to Section 28

- Sub-section (6) of section 28 is being amended so as to provide that the penalty paid under sub-section (5) of section 28, on determination under sub-section (6) thereof, shall be deemed to be a charge for non-payment of duty.