

N. A. SHAH ASSOCIATES LLP  
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# ₹ 26

UNION BUDGET



Building Economic Strength

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## FOREWORD

### A Kartavya-Driven Budget to Harness Yuva Shakti

The 9th consecutive Union Budget presented by Hon'ble Finance Minister Nirmala Sitharaman was in the backdrop of volatile global environment. The focus appears to be on steady consolidation rather than bold experimentation. The Budget seeks to provide impetus to key sectors such as tourism, textile, semi-conductor (ISM 2.0), biopharma, education, sports, and services, aligning with the broader vision of **Viksit Bharat**.

MSMEs continue to remain a priority, with a host of new initiatives aimed at addressing capital and funding requirements, alongside enhanced support mechanisms. The introduction of *Corporate Mitra* is expected to ease compliance burdens for smaller enterprises. The announcement of a new multilingual AI tool, *Bharat Vista*, to improve agricultural productivity is another notable step towards technology-led growth.

On the direct tax front, the changes in buyback tax made lucrative for retail investors. There is rationalisation of penalties, with a move towards integrated proceedings and replacement of penalties with fees in certain cases. TCS provisions have been rationalised. The Budget also provides a boost to IT services, cloud services, and toll equipment manufacturers. MAT credit of earlier years now available only under the new tax regime. The increase in STT on F&O transactions appears to have sent short-term negative signals to the capital markets ignoring the increase in investment limit by Person Resident Outside India under portfolio investment scheme. Tax holiday period for units setup in Gift City extended from 10 years to 20 years. Other announcements include extension of timelines for filing updated / revised returns and a onetime foreign asset disclosure scheme is proposed to encourage correction in past errors/non-disclosure in reporting. There are no changes in personal or corporate tax rates.

On the Customs side, simplification and ease of doing business remain the guiding principles. Authorised Economic Operator (AEO) accreditation is being actively promoted, offering faster cargo clearance and other facilitation benefits. Duties on imported goods for personal use have been reduced from 20% to 10%. Further the amendments under GST are more in line to give effect to the Act for changes proposed in 56<sup>th</sup> GST Council Meeting held in September 2025.

Overall, this Budget may be viewed as a platform for sustained and orderly growth laying the groundwork for future reforms, strengthening compliance culture, and reinforcing confidence amongst businesses and investors. While immediate stimulus measures are limited, the forward-looking framework provides a foundation for scalable growth as India advances towards its long-term economic and developmental goals.

February 1, 2026

Mumbai



## KEY HIGHLIGHTS



**Milan Mody**  
Managing Partner

Three-pronged approaches to boost MSME:

- Equity support with an INR 10,000 crore SME Growth Fund
  - Liquidity support through the TReDS platform
  - Professional support by developing 'Corporate Mitras'
- These policy changes would ensure that MSME continue to be the **Champions of Viksit Bharat**.

**Expert  
Speaks**

Budget 2026 proposes a major overhaul of the transfer pricing safe harbour regime consolidating IT services (software development, IT-enabled services, KPO, and contract R&D) under a single category with a standard 15.5 % margin and higher eligibility limit from INR 300 crore to INR 2,000 crore, alongside fast-tracked APAs to provide greater predictability for cross-border pricing



**Gopal Bohra**  
Partner, Direct Tax

**Expert  
Speaks**



**Dhaval Selwadia**

Partner, Direct Tax &  
Audit and Assurance

The Budget introduces taxpayer-friendly reforms that simplify compliance by extending deadlines, reducing TDS requirements, and easing declaration procedures. It also offers meaningful relief such as fully exempting interest on motor accident compensation from tax and TDS ensuring faster support to affected families. Clearer rules on disability pensions and a one-time foreign asset disclosure scheme further promote fairness and transparency. Overall, the measures signal a shift towards a simpler, fairer, and people-centric tax system

**Expert  
Speaks**

The amendments proposed under GST are in line with the recommendations made in the 56<sup>th</sup> GST Council Meeting. The amendments simplify the provisions and are trade facilitation measure. Delinking of credit notes for post-sale sales discounts from pre-existing agreement, ensuring reversal of ITC by registered recipient on receipt of credit notes, Provisional refund of 90 % for claims made under inverted duty structure, authorize any existing authority to hear appeals till National Appellate authority and final amendment to determine place of supply for intermediary services to be location of service recipient will ensure simplification of compliances and reduction in litigation.



**Parag Mehta**

Partner, Indirect Tax

**Expert  
Speaks**



**Prashant Daftary**

Partner, Audit & Assurance

The budget ensures continuity & consistency in terms of fiscal and tax policies. It tries to make incremental changes towards ease of doing business by various simplification measures and rationalisation of penalties. Though there are no big bang reforms, the commitment to maintain fiscal discipline and reduce the government borrowing as a percentage of the GDP would be beneficial from long term perspective.

**Expert  
Speaks**

The Union Budget 2026 reflects a calibrated move towards trust-based tax administration by expanding the scope of updated returns to even reassessment cases, rationalising the stay mechanism through reduction of pre-deposit demand amount to 10% from 20% pending first appeal, and liberalising immunity, penalty and prosecution provisions, thereby encourage voluntary compliance, reducing litigation friction, and advancing ease-of-doing-business objectives



**Chintan Ghelani**

Partner, Direct Tax

**Expert  
Speaks**





**Hitesh Jain**  
Partner, Direct Tax

Budget 2026 introduces a helpful foreign assets disclosure option for small taxpayers.

It gives individuals a fair chance to correct past omissions that may have happened unintentionally. Instead of penalties and fear, the focus is on voluntary compliance and transparency. This is especially useful for students, professionals, and those with overseas income or investments. Overall, it's a positive step towards making tax compliance simpler and more taxpayer friendly.

**Expert  
Sleaks**

## I DIRECT TAXES<sup>1</sup>

### A TAX RATES

#### PERSONAL TAX

- ◆ No change in tax rates under old regime:

Tax Rate	Age below 60 years / HUF/ AOP/ BOI/ AJP	Age over 60 years but less than 80 years	Age over 80 years
5%	INR 250,000 to INR 500,000*	INR 300,000 to INR 500,000*	-
20%	INR 500,001 to INR 1,000,000	INR 500,001 to INR 1,000,000	INR 500,001 to INR 1,000,000
30%	Above INR 1,000,000	Above INR 1,000,000	Above INR 1,000,000

\* No tax on individual having taxable income upto INR 500,000 as a result of rebate of INR 12,500

- ◆ No change in tax rates for individuals and HUF under new regime:

Total Income	Proposed Rates
Up to INR 400,000	0%
INR 400,001 to INR 800,000	5%
INR 800,001 to INR 1,200,000 *	10%
INR 1,200,001 to INR 1,600,000	15%
INR 1,600,001 to INR 2,000,000	20%
INR 2,000,001 to INR 2,400,000	25%
Above INR 2,400,000	30%

\* No tax on individual having taxable income up to INR 1,200,000 (other than special rate income chargeable to tax) as result of rebate under section 87A of INR 60,000

<sup>1</sup> Proposed amendments are effective from Tax Year 2026-27 unless otherwise specified.

## CORPORATE TAX

- ◆ Tax rates for companies remain unchanged:

Particulars	Tax rate
Domestic companies with total turnover or gross receipts up to INR 400 crores in FY 2024-25	25%
For other domestic companies	30%
Domestic companies opting for new tax regime under section 115BAA	22%
New domestic manufacturing companies opting for section 115BAB	15%
Non-resident company	35%

## FIRMS & LLP

- ◆ Tax rate remains unchanged at 30%

## CO-OPERATIVE SOCIETIES

- ◆ Tax rate under old regime remains unchanged as under:

Taxable Income	Tax rate
Upto INR 10,000	10%
INR 10,001 to 20,000	20%
Above 20,000	30%

- ◆ Tax rate for co-operative societies under new regime remains unchanged at 22%

## SURCHARGE ON INCOME-TAX

- ◆ Surcharge for individuals, HUF, AOP, BOI and AJP remains unchanged:

Particulars	Old Regime	New Regime
Income exceeding INR 50 Lakhs but not exceeding INR 1 crore	10%	10%
Income exceeding INR 1 crore but not exceeding INR 2 crores	15%	15%
Income exceeding INR 2 crores but not exceeding INR 5 crores	25%	25%
Income exceeding INR 5 crores	37%	25%

- ◆ Surcharge on STCG (STT paid), all LTCG and dividend (excluding in case of non-resident) remains unchanged and is capped at 15%
- ◆ Surcharge for domestic and foreign companies remains unchanged:

Particulars	Domestic Company		Foreign Company
	Old regime	New regime	
Income not exceeding INR 1 crore	NIL	10%	NIL
Income exceeding INR 1 crore but not exceeding INR 10 crores	7%	10%	2%
Income exceeding INR 10 crores	12%	10%	5%

- ◆ Surcharge for firms & LLP remains unchanged at 12%, if total income exceeds INR 1 crore
- ◆ Surcharge for co-operative society remains unchanged to 7%, if total income exceeds INR 1 crore but does not exceed INR 10 crores and 12%, if total income exceeds INR 10 crores

- ◆ In case of AOP with only companies as its members, the rate of surcharge remains unchanged at 15% under new regime

#### CESS

- ◆ The Health & Education Cess in all cases remains unchanged at 4%

#### INCREASE IN STT RATE ON F&O TRANSACTIONS

Particulars	Existing	Proposed
Sale of option (STT calculated on option premium)	0.10%	0.15%
Sale of option where the option is exercised (STT calculated on intrinsic value)	0.125%	0.150%
Sale of futures (STT calculated on traded price)	0.02%	0.05%

#### B BUY-BACKS OF SHARES

- ◆ Presently, amounts received on buy-back of shares are taxed as dividend income in the hands of shareholders, while the cost of acquisition of such shares is allowed separately as a capital loss
- ◆ It is proposed that buy-back of shares will be taxed as capital gains instead of dividend income
- ◆ The promoters will have to pay additional capital gains tax resulting in tax rate of 30% and in case of promoter companies, the tax rate will be 22%. For this purpose, promoter includes a shareholder holding, directly or indirectly, more than 10% shareholding

## C MAT PROVISIONS

### RATIONALISATION OF MAT RATE AND CREDIT UTILISATION

- ◆ Presently, under the old regime
  - MAT is 15% on book profits
  - MAT credit can be carried forward and set-off up to next 15 years
  - Unutilized MAT credit lapses if taxpayer switches to new tax regime
- ◆ It is now proposed to
  - Reduce MAT from 15% to 14% on book profits and no fresh MAT credit shall be allowed, w.e.f. Tax Year 2026-27
  - On switching to new tax regime, set-off of MAT credit shall be allowed for domestic companies to the extent of 25% of the tax liability of the respective tax year
  - Foreign companies will continue to be allowed set-off of MAT credit to the extent of difference between normal tax liability and MAT in the tax year where normal tax exceeds MAT

### EXCLUSION OF SPECIFIED NON-RESIDENTS FROM THE APPLICABILITY OF MAT

- ◆ Presently, foreign companies and non-residents, deriving income from business who have opted for presumptive taxation, are excluded from the application of MAT except the business of operation of cruise ships and the business of providing services or technology for the setting up an electronics manufacturing facility in India
- ◆ It is proposed to exclude the above-referred businesses also from the applicability of MAT

## **D BENEFITS TO UNITS IN IFSC & OBU**

### **TAX HOLIDAY**

- ◆ Presently, units in IFSCs and OBUs are eligible for 100% deduction on certain incomes for 10 consecutive years out of 15 years for units in IFSC and 10 consecutive years for OBUs
- ◆ It is proposed to extend the period of deduction upto 20 consecutive years out of 25 years for units in IFSC and 20 consecutive years for OBUs
- ◆ Post tax holiday period, business income of such units will be taxed at 15% as against applicable current tax rate

### **RATIONALISATION OF DEFINITION OF 'DIVIDEND'**

- ◆ Presently, loans and advances between group entities are treated as 'deemed dividend'
- ◆ It is proposed to exclude intra-group loans from the definition of 'dividend' where:
  - One of the group entities is a Finance company/ Finance unit;
  - The Parent/ Principal entity is listed on a recognised stock exchange outside India; and
  - The other group entity is located in a notified foreign jurisdiction

## **E EXEMPTIONS FOR FOREIGN COMPANIES AND NON-RESIDENTS**

- ◆ It is proposed to extend tax exemption to the following eligible non-residents, foreign companies and other such persons:

- Income of a foreign company arising from providing capital goods, equipment or tooling to an Indian contract manufacturer located in a custom bonded warehouse and engaged in manufacturing electronic goods on its behalf, up to tax year 2030-31
- Income of a foreign company arising in India from procuring data centre services from a specified data centre in India, up to the tax year ending 31<sup>st</sup> March 2047, subject to fulfilment of prescribed conditions
- Income accruing or arises outside India to an individual who was non-resident for five consecutive tax years immediately preceding the year visiting India for rendering services in connection with notified scheme for five consecutive tax years commencing from the first tax year during which he visits India

#### **F VDS IN RESPECT OF FOREIGN ASSETS AND INCOMES OF SMALL TAXPAYERS**

- ◆ Presently, Black Money Act provides for penalty where a taxpayer does not provide satisfactory explanation about source of foreign assets or foreign income has not been offered to tax or where such foreign asset has not been reported in the ITR
- ◆ However, penalty is leviable even in petty cases where failure is primarily attributable to inadvertence on part of small taxpayers
- ◆ To provide relief and to encourage voluntary compliance on part of small taxpayers, voluntary disclosure scheme has been introduced
- ◆ Salient features of the scheme are as under:

Category	Undisclosed Foreign Income / Assets	Foreign Assets out of explained source but not reported in ITR
Eligibility	Resident in India during the previous year or not ordinarily resident / non-resident in the previous year who was resident when income accrued or asset acquired	
Asset / Income Type	<ul style="list-style-type: none"> <li>Undisclosed foreign income</li> <li>Undisclosed assets abroad (including financial interest in entities) with unexplained source</li> </ul>	Assets acquired from income earned outside India when assessee was a non-resident or acquired out of income which has been offered to tax in India but not reported in ITR
Value Limit (as on 31 <sup>st</sup> March 2026)	Aggregate value of undisclosed foreign asset and income $\leq$ INR 1 Crore	Asset value $\leq$ INR 5 Crore per asset
Amount Payable	<p>Tax @ 30% of asset or 30% of income, as the case may be, plus additional amount equal to 100% of such tax</p> <p>Total Tax = 60% of asset or income, as the case may be</p>	Flat fee of INR 1 Lakh per asset; if multiple years, fee charged only for first year of non-disclosure per asset
Interest on Delayed Payment	Simple interest @ 1% per month (or part) if paid during allowed 2-month extension	
Immunity / Benefits	Full immunity from tax, penalty and prosecution under Black Money Act for undisclosed assets/ income	Full immunity from penalty and prosecution under Black Money Act for asset not reported in ITR

Category	Undisclosed Foreign Income / Assets	Foreign Assets out of explained source but not reported in ITR
Pending Assessments	Declaration to be considered by AO when finalizing proceedings under the Act / Black Money Act	
Exclusions / Limitations	<ul style="list-style-type: none"> <li>• Proceeds of crime under PMLA</li> <li>• Cases where assessment under Black Money Act is already completed</li> </ul>	

- ◆ The Central Government shall notify the date when the scheme will come into force and last date for filing declaration under the scheme

## G RATIONALISING TRANSFER PRICING

### SAFE HARBOUR RULE

- ◆ It is proposed that all IT-related services (software development, IT-enabled services, KPO, and contract R&D) will be grouped under a single category called Information Technology Services, with a common safe harbour margin of 15.5%
- ◆ The threshold for eligibility has been increased from INR 300 crore to INR 2,000 crore, allowing more companies to benefit and can opt to continue the safe harbour for up to five years, providing long-term certainty
- ◆ The application process will be fully automated, with no manual approval needed

### APA PROCESS

- ◆ It is proposed to introduce fast-tracked unilateral APA process for IT Services Companies



- ◆ The Government aims to conclude APA within 2 years which can be further extended by 6 months at the request of taxpayer. The applicable rules in this regard shall be notified
- ◆ It is also proposed to allow Associated Enterprise (who is not the person entering into an APA) for filing modified return of income and claiming refund of any additional taxes paid by it or withheld from its income, thus avoiding double taxation

#### **SCOPE OF SDT**

- ◆ Presently, transfer pricing regulations are applicable in respect of SDT of entity claiming benefit under section 10AA
- ◆ It is proposed that transfer pricing regulations will not be applicable in the above case

## **H UPDATED RETURN**

#### **LOSS RETURN**

- ◆ Presently, loss returns are not eligible for filing updated return
- ◆ It is now proposed to permit filing of updated return, even in case of a loss return, where the returned loss is reduced
- ◆ This amendment is applicable from 01<sup>st</sup> March 2026

#### **REASSESSMENT**

- ◆ Presently, a taxpayer cannot file updated return where assessment or reassessment is pending or completed

- ◆ It is now proposed to permit updated return, even where reassessment notice is issued, subject to further additional payment of 10% of tax and interest payable
- ◆ This amendment is applicable from 01<sup>st</sup> March 2026

## I TAX ON UNEXPLAINED CREDITS & OTHER ITEMS

- ◆ Presently, unexplained credits/ investments/ assets/ expenditure etc. are taxable at a flat rate of 60% plus 25% surcharge
- ◆ It is now proposed to reduce the tax rate from 60% to 30%, plus applicable surcharge, on such unexplained credits/ investments/ assets/ expenditure etc.

## J TDS / TCS

### TAX COLLECTED AT SOURCE

- ◆ Following changes are proposed:

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, iron etc	1%	2%
5	Remittance under LRS of an amount or aggregate of amounts exceeding INR 10 lakhs-		
	a. for the purpose of education or medical treatment	5%	2%

	b. for purposes other than education or medical treatment	20%	20%
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. Where the amount or aggregate of amounts is up to INR 10 lakhs	5%	2%
	b. Where the amount or aggregate of amounts exceeds INR 10 lakhs	20%	2%

#### RELAXATION FOR TAN – PURCHASE OF PROPERTY FROM NON-RESIDENT

- ◆ Presently, in case of purchase of an immovable property from a non-resident seller, the buyer is required to obtain TAN for deducting TDS
- ◆ It is now proposed to provide that resident individual/ HUF is not required to obtain TAN for the above compliance
- ◆ This amendment will take effect from 01<sup>st</sup> October 2026

#### TDS ON SUPPLY OF MANPOWER

- ◆ Presently, there is ambiguity with regard to TDS rate applicable on supply of manpower

- ◆ It is proposed to clarify, by amending the definition of “work”, so as to include “supply of manpower” and consequently apply TDS at the rate of 1%/ 2%

#### **LOWER / NIL TDS CERTIFICATES – EASIER AND FASTER PROCESS**

- ◆ Presently, a taxpayer seeking a certificate for lower or nil deduction of tax is required to make an application before the AO. The certificate is issued after manual verification by the AO, and the payer deducts tax based on the rate mentioned in such certificate
- ◆ Now for small taxpayers, it is proposed to allow them to file such applications online. Based on electronic verification, the authority may issue a certificate for lower or nil deduction or reject the application if prescribed conditions are not met or the application is incomplete

### **K BLOCK ASSESSMENT**

#### **RATIONALIZATION OF BLOCK PERIOD IN CASE OF PERSON OTHER THAN SEARCHED PERSON**

- ◆ Presently, when a search or requisition reveals undisclosed income belonging to any person other than the searched person (“other person”), the assets/documents are handed over to the AO having jurisdiction over that other person and such AO is required to conduct assessment on such other person
- ◆ Currently, the block period for other person is defined to be same as that in case of the searched person and this leads to increased compliance burden on such other person
- ◆ It is therefore proposed to amend the definition of block period for other person, as under:

- Where the undisclosed income pertains only to period starting from tax year immediately preceding the year of search and ending on the date of search, the block period for such other person shall comprise only of such period
- Where undisclosed income pertains to a single year, the block period for such other person shall comprise of only that single year
- ◆ The above amendment is applicable for search initiated or requisition made, on or after 01<sup>st</sup> April 2026

#### COMPUTATION OF TIME LIMIT IN CASE OF BLOCK ASSESSMENT

- ◆ Presently, the time limit for completion of block assessment is 12 months from end of the quarter in which the last of the authorizations for search is executed

Since search is conducted by multiple teams across different groups being searched, use of last date of authorization as reference point for computing period of limitation leads to different date of limitations in case of every group being searched

- ◆ To remove administrative difficulty, it is proposed to amend the time limit for completion of block assessment to 18 months from end of the quarter in which the search was initiated
- ◆ The above amendment is applicable for search initiated or requisition made, on or after 01<sup>st</sup> April 2026

## L PENALTIES AND PROSECUTIONS

### PROCEDURE FOR LEVY OF PENALTY

- ◆ Presently, the Act prescribes mandatory reasonable opportunity of being heard before levying penalty
- ◆ It is now proposed that reasonable opportunity of being heard shall be granted by way of show cause notice, issued on or after 01<sup>st</sup> March 2026
- ◆ Presently, AO is required to pass separate penalty order for under-reporting/misreporting of income
- ◆ It is now proposed that levy of penalty shall be part of the assessment order
- ◆ It is now further proposed that no interest on the penalty demand will be charged upto the date of passing of quantum order by the first appellate authority. This amendment will be applicable for assessments made on or after 01<sup>st</sup> April 2027

### CHANGES IN LEVY OF PENALTIES

- ◆ The present levy of penalty, which was discretionary with the AO, is now replaced with criteria-based fixed fees. These situations include delay in furnishing audit reports, SFT and returns
- ◆ Further, in certain cases of failure to provide information, penalties have been introduced/ enhanced and changed

### RATIONALIZATION OF PENAL PROVISIONS

- ◆ Presently, immunity from imposition of penalty and prosecution is granted, subject to compliance of conditions, in case of under-reporting

of income. It is now proposed to grant immunity in the cases of misreporting also, subject to payment of additional tax –

- 120% of the amount of tax payable in cases of unexplained credits/investments/assets/expenditure (applicable from tax year 2026-27)
- 100% of the amount of tax payable in any other case

#### **DECriminalISATION OF PUNISHMENT/OFFENCES:**

- ◆ Presently, various provisions impose criminal liability and prescribes imprisonment including rigorous imprisonment, which span from three months to seven years for various offences
- ◆ It is now proposed to replace rigorous imprisonment to simple imprisonment as well as to decriminalise certain offences
- ◆ Further, the term of imprisonment has been reduced in few cases

## **M MISCELLANEOUS**

### **SGB - EXEMPTIONS**

- ◆ Presently, capital gain on redemption of sovereign gold bonds by an individual is exempt, even if the individual was not a subscriber to the original issue
- ◆ It is now proposed that exemption would be allowed only if the said bonds are held by the subscriber to the original issue

### **DEDUCTION UNDER NEW TAX REGIME**

- ◆ Presently, individuals, HUFs, AOPs, BOIs and AJP's opted for the new tax regime, are not allowed to claim deduction of the profits and gains derived from export of articles or things or services from units in SEZ

- ◆ It is now proposed to allow above deduction under new tax regime also

#### **EXEMPTIONS**

- ◆ The following incomes are proposed to be exempted from computation of total income:
  - Disability pension received by person who has been a member of armed forces if such person has been removed from service on account of bodily disability and has not retired on superannuation
  - Interest on compensation amount, awarded by Motor Accident Claims Tribunal, received by the concerned individual or his legal heir, under the Motor Vehicles Act, 1988
  - Income arising to an individual or HUF on compulsory acquisition of any land under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013

#### **DUE DATE FOR PASSING OF TRANSFER PRICING ORDER**

- ◆ Presently, TPO is required to pass TP Order at least 60 days prior to due date of passing assessment order
- ◆ Tribunals have taken a view that while computing the period of 60 days, the due date of passing the assessment order shall be excluded
- ◆ It is now clarified that the calculation of 60 days shall be made in the prescribed manner. The fixed dates based on the manner prescribed are:

<b>Due date of passing assessment order</b>	<b>Retrospective Rule (from 01<sup>st</sup> June 2007)</b>	<b>New Rule (from 01<sup>st</sup> April 2026)</b>
31 <sup>st</sup> March (Non-Leap Year)	30 <sup>th</sup> January	31 <sup>st</sup> January
31 <sup>st</sup> March (Leap Year)	31 <sup>st</sup> January	31 <sup>st</sup> January
31 <sup>st</sup> December	01 <sup>st</sup> November	31 <sup>st</sup> October

#### **TIME LIMIT FOR PASSING OF DRAFT AND FINAL ASSESSMENT ORDER**

- ◆ Presently, AO must first issue a draft assessment order under section 144C in case of an eligible assessee. Thereafter, AO is required to pass final order within one month from the end of the month in which the acceptance is received from taxpayer/ time limit to file objection before DRP expires
- ◆ Section 153 of the Act provides general time limit for completion of assessment. Similarly, section 153B provides time limit in case of search assessment
- ◆ Due to anomaly between section 144C and section 153/ section 153B, Courts differed on whether section 144C overrides section 153/ section 153B
- ◆ It is now clarified that where the draft order is issued on time, the final assessment timeline follows section 144C only, ignoring section 153/ section 153B. Further, this amendment is retrospectively applicable from 01<sup>st</sup> October, 2009
- ◆ Corresponding amendments are also carried out in the proposed new Act

## POWER OF JAO UNDER REASSESSMENT

- ◆ Presently, the power of JAO to issue notice for reopening of assessment under faceless scheme is ambiguous. Hence, divergent views have been expressed by various High Courts and the matter is currently pending before the Hon'ble Supreme Court
- ◆ It is now proposed to clarify that the JAO has power to issue reopening notice
- ◆ This amendment is applicable retrospectively from 01<sup>st</sup> April 2021

## ORDER WITHOUT DIN

- ◆ Presently, the Act provides that assessment shall not be invalid merely by reason of any mistake, defect or omission, provided the notice or order is, in substance and effect, conformity with the intent of the Act
- ◆ However, certain High Courts, based on a CBDT Circular, have held such assessments as invalid on the ground of non-quoting of DIN on the assessment order, even where DIN was generated but not quoted in such order
- ◆ It is now proposed to clarify that assessment shall not be considered invalid on the ground of non-quoting of DIN, if such assessment order are referenced by such DIN in any manner
- ◆ This amendment is applicable retrospectively from 01<sup>st</sup> October 2019

## PROCESSING OF RETURN OF INCOME

- ◆ Presently, CPC can make adjustment for disallowance of deduction relating to SEZ units where the return of income is furnished beyond the due date of filing return

- ◆ It is now proposed to exclude above adjustment while processing the return.

#### EXPANSION OF DEDUCTION RELATED TO MINERAL EXPLORATION

- ◆ Presently, taxpayers engaged in prospecting or mining of specified minerals are allowed to claim deduction for related expenses under the Income-tax Act. Such deduction is spread over ten years starting from the year of commercial production, and covers expenses incurred in that year and up to four years immediately preceding it
- ◆ It is now proposed to add several new items in the existing list of specified minerals

#### DEDUCTIONS AGAINST DIVIDEND

- ◆ Presently, interest expense to the extent of 20% of dividend income/ income from units from mutual funds is allowed as a deduction
- ◆ It is now proposed that interest expense will not be allowed as deduction

#### EXTENSION OF DUE DATES FOR FILING OF ORIGINAL RETURN

- ◆ The due dates for furnishing return of income for AY 2026-27 and onwards have been changed in the case of:

Person	Existing Due Date	Proposed Due date
a. Persons with business/professional income not requiring audit	31 <sup>st</sup> July	31 <sup>st</sup> August

b. Partners of non-audited firms		
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#### EXTENSION OF DUE DATE FOR FILING OF REVISED RETURN

- ◆ Presently, revised return of income can be filed within 9 months from the end of the relevant tax year or before completion of assessment whichever is earlier
- ◆ It is proposed to extend time limit for filing of revised return of income from 9 months to 12 months for AY 2026-27 and onwards

#### EMPLOYEE CONTRIBUTION DEDUCTION – DUE DATE RATIONALISED

- ◆ Presently, deduction for employer contributions to various approved fund is allowed only if the amount is credited by the due date of filing return of income. However, there is ambiguity with regard to payment of employee contributions
- ◆ Supreme Court in the case of Checkmate Services Pvt. Ltd [2022] 143 taxmann.com 178 (SC) held that deduction for employee contributions to various approved fund is allowed only if the amount is credited by the due date prescribed under the respective Act
- ◆ It is now proposed that the deduction for employee's contribution can be claimed if amount is credited on or before the due date of filing return of income

## STAY ON DEMAND

- ◆ It is proposed to be reduce pre-deposit of disputed tax demand from present 20% to 10%, in case of appeals pending before the first appellate authorities

## II GOODS AND SERVICES TAX<sup>2</sup>

All the proposed amendments are in line with the recommendations made in the 56<sup>th</sup> GST Council meeting held on 3<sup>rd</sup> September 2025.

### A CHANGE IN PLACE OF SUPPLY FOR INTERMEDIARY SERVICES

- ◆ It is proposed to omit section 13(8)(b) which provides for the place of supply for intermediary services as the location of the supplier of services.
- ◆ This proposed omission now shifts the place of supply of intermediary services to the location of the recipient of services simplifying cross-border transactions.

### B ISSUANCE OF CREDIT NOTES FOR POST-SUPPLY DISCOUNTS

- ◆ Proposed amendment intends to do away with the requirement of linking credit notes for post-sale discount to a pre-existing agreement.
- ◆ Reduction in tax liability shall be allowed to the supplier on issuance of such credit note only wherein ITC has been reversed by registered recipient or the incidence of tax has not been passed on to any other person.

### C REFUND OF TAX

- ◆ It is proposed to grant refund up to 90% of claimed amount on provisional basis in case of unutilised ITC due to inverted duty structure.
- ◆ It is proposed to remove the threshold limit of Rs.1,000 for refund claims arising from the export of goods with payment of tax.

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<sup>2</sup> Proposed amendments will be effective from date to be notified unless otherwise specified

## **D INTERIM ARRANGEMENT FOR HEARING APPEALS TO BE FILED BEFORE NAA**

- ◆ It is proposed to empower any existing authority (including a Tribunal), to hear appeals against conflicting advance rulings given by the appellate authorities of two or more States or Union Territories until NAA is constituted.
- ◆ The proposed amendment shall be effective from 1<sup>st</sup> April 2026.

## GLOSSARY

AJP	Artificial Juridical Person
AO	Assessing Officer
AOP	Association of Persons
APA	Advanced Pricing Agreements
AY	Assessment Year
Black Money Act	The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
BOI	Body of Individuals
CBDT	Central Board of Direct Taxes
DIN	Document Identification Number
F&O	Futures and Options
HUF	Hindu Undivided Family
IFSC	International Financial Services Center
ITC	Input Tax Credit
JAO	Jurisdictional Assessing Officer
KPO	Knowledge Process Outsourcing
LLP	Limited Liability Partnership
LTCG	Long-term Capital Gains
MAT	Minimum Alternate Tax
NAA	National Appellate Authority
OBU	Off-shore Banking Units
PMLA	Prevention of Money-laundering Act, 2002
R&D	Research and Development
SC	Supreme Court
SDT	Specified Domestic Transactions
SEZ	Special Economic Zone
SFT	Statement of Financial Transactions
SGB	Sovereign Gold Bonds
STCG	Short-term Capital Gains
STT	Securities Transaction Tax
TDS	Tax Deduction at Source
The Act	The Income-tax Act, 1961
The New Act	The Income-tax Act, 2025
TPO	Transfer Pricing Officer
VDS	Voluntary Disclosure Scheme

Disclaimer:

This document has been prepared as a service to the clients. We recommend you to seek professional advice before taking any action on the specific issues.

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