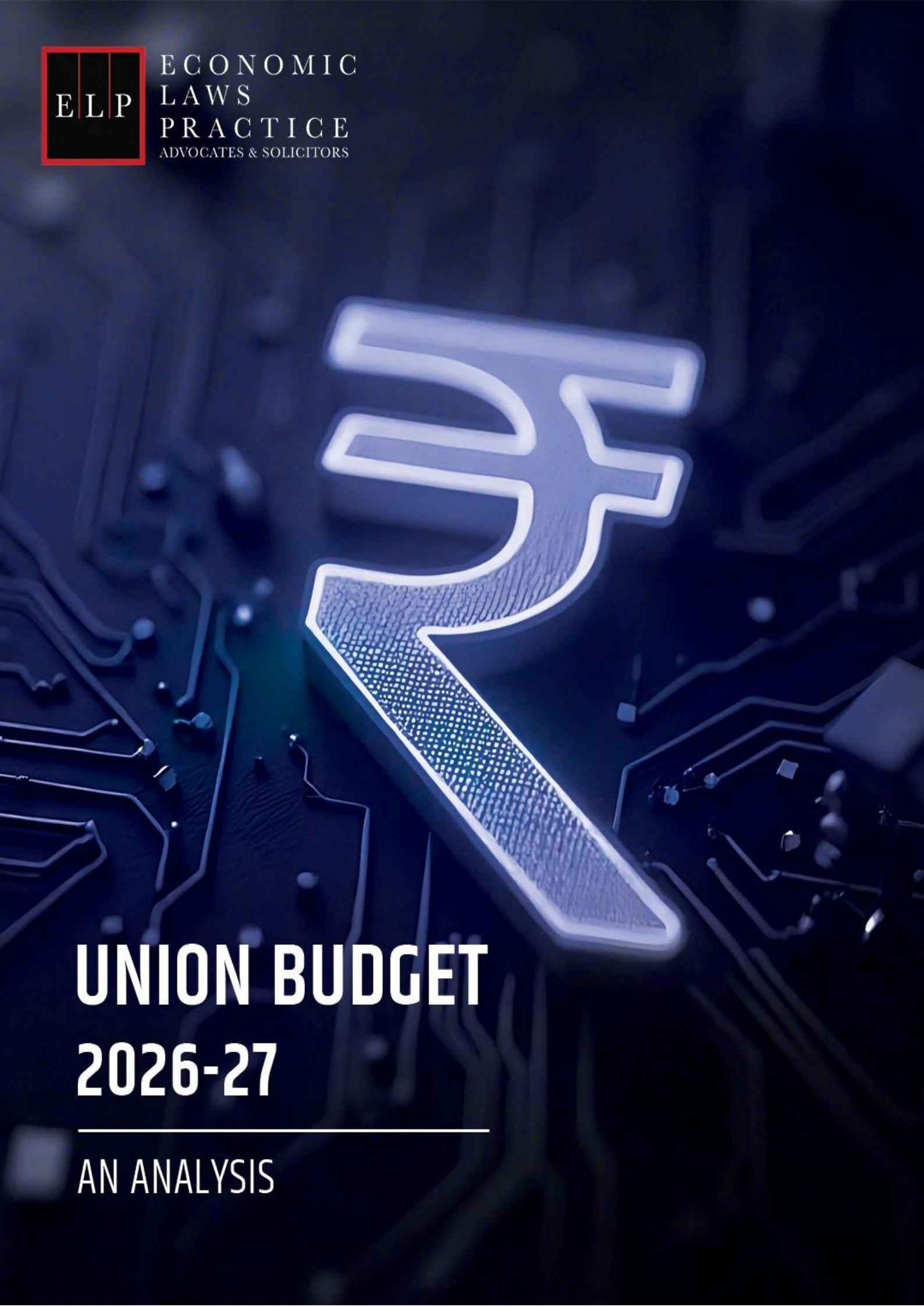
ECONOMIC LAWS PRACTICE
ADVOCATES & SOLICITORS



UNION BUDGET 2026-27

AN ANALYSIS

TABLE OF CONTENTS

PREFACE

Dear Reader,

ELP is once again pleased to bring you our deep dive of the annual Union budget.

Each year, the Union Budget marks a critical moment in India's fiscal, regulatory and policy trajectory. Our analysis is intended to serve as a practical and strategic reference for businesses, investors and institutions navigating the evolving tax and policy landscape

We are well aware that you are the recipient of many such competing analyses – but we keep our efforts going thanks to the encouraging feedback we receive year after year from all our esteemed clients and new readers. Over time, ELP's Budget publications have come to be relied upon for their depth, clarity and institutional perspective on complex fiscal measures.

This year the budget was delivered against unprecedented global turmoil and it must be lauded for delivering on the fiscal discipline by maintaining the fiscal deficit to less than 4.5% of GDP - critical for investor confidence and sovereign ratings.

This needs to be appreciated in the background of three major revenue sources for the government which were/will be affected in the recent past and the near future:

- First is the increase of slabs in the income tax rates in the 2025 budget
- Second the rationalization and reduction of GST slabs in September 2025, and
- Third - an unknown – the 'mother of all FTAs' signed with the EU will undoubtedly open opportunities for Indian exports but reduce the collection of customs duty from a major trading partner - amongst several other FTA partners with whom we have agreements.

This budget has several positives for the economy. Some of these include:

- Targeted incentives to labor intensive manufacturing sectors such as footwear and textiles.
- Strategic capital spends on logistics such as high speed rail corridors and inland waterways.
- A focus on upskilling of labor.
- A big push into mining of rare earth minerals and container manufacturing to reduce dependencies on China.
- Further allocation of funds to the biopharma industry recognizing the growth in non-communicable diseases in India.
- The creation of a "High Level Committee on Banking for Viksit Bharat" to comprehensively review the sector and align it with India's next phase of growth.
- Liberalization of sales into the domestic tariff area from the SEZ to alleviate the impact of US tariffs to affected sectors.

- Cheaper inputs for the labor-intensive sea food and leather industries, through increased thresholds or lower duty rates.

On the downside, the increase in securities transaction tax is expected to weigh on forward trading activity in the equity markets. This, along with the disappointment on other expectations, has already manifested itself in the fall of the stock market index soon after the budget was announced. The pace and durability of any recovery will serve as an important indicator of broader industry and investor sentiment. Given India's ambitions for growth – clearly more remains to be done. Hopefully the reforms will continue between budgets now.

This year's publication includes an expanded analysis of labor and employment, as well as climate policy, alongside our regular focus areas. As the law evolves around us, so does our firm with a view towards serving our clients as they navigate newer and more complex issues in their business. ELP continues to grow – organically and inorganically – to better serve our clients.

I trust that this analysis will serve as a useful reference as you assess the implications of the Budget, and I look forward to our continued engagement in the year ahead.

We hope you enjoy reading this, and as always, we welcome your feedback!

Thank you.

Suhail Nathani

Managing Partner

On behalf of Team ELP

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BUDGET HIGHLIGHTS

DIRECT TAXES

- New Income-tax Act, 2025 to come into force from April 1, 2026
- Buyback of shares proposed to be taxed as capital gains for all shareholders, with additional levy for promoters
- MAT regime proposed to be made final tax from April 2026, with marginally reduced rate of 14%, without credit accumulation
- MAT exemption proposed for all non-residents paying tax on presumptive basis
- One-time 6-month foreign asset disclosure scheme proposed for specified small taxpayers
- Immunity from prosecution proposed for non-disclosure of foreign assets in specified cases
- STT on futures proposed to be increased from 0.02% to 0.05%
- Safe harbour regime rationalized with a single category of IT services and common margin of 15.5%
- Threshold for availing safe harbour for IT services enhanced from INR 300 crore to INR 2,000 crore
- Unilateral APA process for IT services proposed to be fast-tracked with a two-year completion target
- Tax holiday till 2047 proposed for foreign companies providing global cloud services using Indian data centres
- Pre-deposit requirement for appeals proposed to be reduced from 20% to 10% of the tax demand
- Certain technical defaults proposed to be converted from penalty into a fee-based regime
- Decriminalization of minor offences
- Integration of assessment and penalty proceedings through a common order to reduce multiplicity of proceedings
- Time limit for filing revised returns extended up to March 31st subject to a nominal fee
- Updated returns permitted even after initiation of reassessment, with an additional 10% Income Tax
- Courts proposed to be empowered to convert simple imprisonment into fine-based outcome

GST

- Place of supply rule for intermediary services to be determined based on general recipient-based default rule
- Post-sale discounts through GST credit notes allowed without mandatory linkage to prior agreement
- Credit notes provisions amended to align with valuation rules under Section 15
- Provisional refund facility extended to refunds arising from inverted duty structure
- Empowerment to notify an existing authority/tribunal to function in place of the National Appellate Authority

CUSTOMS

- Advance rulings under Customs proposed to remain valid for five years (extendable for existing rulings)
- Penalty paid under Section 28 to be treated as a charge for non-payment of duty
- Prior permission requirement removed for transfer of warehoused goods between bonded warehouses
- Tariff rate on all dutiable goods imported for personal use reduced from 20% to 10%
- Duty deferral period for Tier 2/3 AEOs enhanced from 15 days to 30 days
- Removal of ₹10 lakh cap on courier exports proposed to boost MSME e-commerce exports

DIRECT TAX

INCOME TAX RATES

Individual, HUF, AOP, BOI and AJP

Tax rate under default tax regime (New Regime)

Income (INR)	Existing and Proposed Rates (%)
	Tax rates
Up to 400,000	Nil
400,001 - 800,000	5
800,001 – 1,200,000	10
1,200,001 - 1,600,000	15
1,600,001 - 2,000,000	20
2,000,001 - 2,400,000	25
Above 2,400,000	30

Tax rate under optional tax regime (Old Scheme)

Income (INR)	Existing and Proposed Rates (%)		
	Individuals (other than senior and super senior citizens)	Resident senior citizens (60 years or more at any time during previous year)	Resident super senior citizens (80 years or more at any time during previous year)
0 – 250,000	NIL	NIL	NIL
250,001 – 300,000	5	NIL	NIL
300,001 – 500,000	5	5	NIL
500,001 – 1,000,000	20	20	20
1,000,001 and above	30	30	30

Rebate, Surcharge & Cess

Sr. No.	Particulars	Existing	Proposed
1	Rebate (applicable to resident individuals)	**Under Section 87A of IT Act, 1961** **Default tax regime** ▪ INR 25,000 - If total income does not exceed INR 700,000 ▪ INR 60,000 - If total income does not exceed INR 1,200,000 **Optional tax regime** INR 12,500 - If total income does not exceed INR 500,000	**Under Section 156 of IT Act** **Default tax regime** ▪ INR 25,000 - If total income does not exceed INR 700,000 ▪ INR 60,000 - If total income does not exceed INR 1,200,000 **Optional tax regime** INR 12,500 - If total income does not exceed INR 500,000
2	Surcharge on income of specified fund	Section 10(4D) taxable under Section 115AD(1)(a) of the IT Act, 1961 ▪ Nil	Schedule VI SI No 1 to 4 taxable under Section 210(1) of the IT Act ▪ Nil
3	Surcharge for dividend, capital gains income, income of AOPs	Surcharge for dividend, income covered under Section 111A, 112, 112A, 115AD(1)(b) of the IT Act, 1961, income of AOPs comprising of companies as its members: ▪ 10% - If total income > INR 5 million but ≤ INR 10 million ▪ 15% - If total income > INR 10 million	Surcharge for dividend, income covered under Section 196, 197, 198, 210(1) of the IT Act, income of AOPs comprising of companies as its members: ▪ 10% - If total income > INR 5 million but ≤ INR 10 million ▪ 15% - If total income > INR 10 million
4	Surcharge (for income other than those specifically covered above)	**Default tax regime** ▪ 10% - If total income > INR 5 million but ≤ INR 10 million ▪ 15% - If total income > INR 10 million, but ≤ INR 20 million ▪ 25% - If total income > INR 20 million **Optional tax regime** ▪ 10% - If total income > INR 5 million but ≤ INR 10 million	**Default tax regime** ▪ 10% - If total income > INR 5 million but ≤ INR 10 million ▪ 15% - If total income > INR 10 million, but ≤ INR 20 million ▪ 25% - If total income > INR 20 million **Optional tax regime** ▪ 10% - If total income > INR 5 million but ≤ INR 10 million

Sr. No.	Particulars	Existing	Proposed
		▪ 15% - If total income > INR 10 million, but ≤ INR 20 million ▪ 25% - If total income > INR 20 million, but ≤ INR 50 million ▪ 37% - If total income > INR 50 million	▪ 15% - If total income > INR 10 million, but ≤ INR 20 million ▪ 25% - If total income > INR 20 million, but ≤ INR 50 million ▪ 37% - If total income > INR 50 million
5	Cess - Health and Education cess	▪ Surcharge on income of specified fund (Section 10(4D) taxable under Section 115AD(1)(a) of the IT Act, 1961 – Nil ▪ Other cases - 4%	▪ Surcharge on income of specified fund (Schedule VI SI No 1 to 4 taxable under Section 210(1) of the IT Act – Nil ▪ Other cases - 4%
6	AMT for Individuals, HUFs, AOPs, BOIs and AJP (Including surcharge and cess)	**Default tax regime** Not applicable **Optional tax regime** ▪ 19.24% - If adjusted total income > INR 2 million, but ≤ INR 5 million ▪ 21.16% - If adjusted total income > INR 5 million, but ≤ INR 10 million ▪ 22.13% - If adjusted total income > INR 10 million, but ≤ INR 20 million ▪ 24.05% - If adjusted total income > INR 20 million, but ≤ INR 50 million ▪ 26.36% - If adjusted total income > INR 50 million	**Default tax regime** Not applicable **Optional tax regime** ▪ 19.24% - If adjusted total income > INR 2 million, but ≤ INR 5 million ▪ 21.16% - If adjusted total income > INR 5 million, but ≤ INR 10 million ▪ 22.13% - If adjusted total income > INR 10 million, but ≤ INR 20 million ▪ 24.05% - If adjusted total income > INR 20 million, but ≤ INR 50 million ▪ 26.36% - If adjusted total income > INR 50 million

Co-operative Societies

Normal Tax Rates

Income (INR)	Existing and proposed (%)
0 – 10,000	10
10,001 - 20,000	20
20,001 and above	30

Special Tax Rates under optional tax regime

Sr. No.	Particulars	Existing	Proposed
1	Optional regime	Section 115BAD of the IT Act, 1961 ▪ 25.17% (Base rate – 22%)	Section 203 of the IT Act ▪ 25.17% (Base rate – 22%)
2	Optional regime for new manufacturing co-operative society set up on or after 1st April 2023	Section 115BAE of the IT Act, 1961 ▪ 17.16% - Irrespective of total income (Basic rate – 15%)	Section 204 of the IT Act ▪ 17.16% - Irrespective of total income (Basic rate – 15%)

Surcharge & Cess for Co-operative Society

Sr. No.	Particulars	Existing	Proposed
1	Surcharge on income of co-operative society	**Normal tax rates** ▪ NIL - If total income ≤ INR 10 million ▪ 7% - If total income > INR 10 million, but ≤ INR 100 million ▪ 12% - If total income > INR 100 million **If opted for special tax rates under Section 115BAD or Section 115BAE of the IT Act, 1961** ▪ 10% irrespective of total income	**Normal tax rates** ▪ NIL - If total income ≤ INR 10 million ▪ 7% - If total income > INR 10 million, but ≤ INR 100 million ▪ 12% - If total income > INR 100 million **If opted for special tax rates under Section 203 or Section 204 of the IT Act** ▪ 10% irrespective of total income
2	Cess - Health and Education cess	4%	4%
3	AMT for co-operative societies **(Including surcharge and cess)**	**Normal tax rates** ▪ 15.6% - If total income ≤ INR 10 million ▪ 16.69% - If total income > INR 10 million, but ≤ INR 100 million ▪ 17.47% - If total income > INR 100 million	**Normal tax rates** ▪ 15.6% - If total income ≤ INR 10 million ▪ 16.69% - If total income > INR 10 million, but ≤ INR 100 million ▪ 17.47% - If total income > INR 100 million **If opted for special tax rates (Section 203 and Section 204 of the IT Act)**

		If opted for special tax rates (Section 115BAD and Section 115BAE of the IT Act, 1961) ▪ Not applicable	▪ Not applicable

Companies & Partnership Firms (including LLP)

Existing effective tax rates

Sr. No.	**Description**	**Existing rates (Including surcharge & Cess)**		
(A)	**Domestic Companies**	**Net income ≤ INR 10 million**	**Net Income > INR 10 million, but ≤ INR 100 million**	**Net income > INR 100 million**
1	Turnover or gross receipts in previous year 2024-25 ≤ INR 4 billion (Basic rate – 25%)	26.00	27.82	29.12
2	Covered under Section 115BA of the IT Act, 1961 (Basic rate – 25%)	26.00	27.82	29.12
3	Covered under Section 115BAA of the IT Act, 1961 (Basic rate – 22%)	25.17		
4	Covered under Section 115BAB of the IT Act, 1961 (Basic rate – 15%)	17.16		
5	Any other Company having turnover or gross receipts in previous year 2024-25 > INR 4 billion (Basic rate – 30%)	31.20	33.38	34.94
6	MAT under section 115JB of the IT Act, 1961 (For companies other than that covered under Section 115BAA and 115BAB of the IT Act, 1961) - Rate to	15.60	16.69	17.47

	be applied on book profits – basic rate 15%)			
(B)	**Foreign Companies**	**Net income ≤ INR 10 million**	**Net Income > INR 10 million, but ≤ INR 100 million**	**Net income > INR 100 million**
1	Effective tax rate (Basic rate – 35%)	36.40	37.13	38.22
(C)	**Firms (including LLP)**	**Net income ≤ INR 10 million**		**Net income > INR 10 million**
1	Effective tax rate (Basic rate – 30%)	31.2		34.94
2	AMT (Base rate – 18.5%)	19.24		21.55

Existing Surcharge and Cess

Particulars	Existing rates
For Domestic companies covered under Section 115BAA and Section 115BAB of the IT Act, 1961	10% - Irrespective of the amount of total income
Income of specified fund (Section 10(4D) being a domestic company taxable under Section 115AD(1)(a) of the IT Act, 1961	Nil
Other domestic companies	▪ NIL - If total income ≤ INR 10 million ▪ 7% - If total income > INR 10 million, but ≤ INR 100 million ▪ 12% - If total income > INR 100 million
For Foreign companies	▪ NIL - If total income ≤ INR 10 million ▪ 2% - If total income > INR 10 million, but ≤ INR 100 million ▪ 5% - If total income > INR 100 million
For Firms (including LLP)	▪ 12% - If total income > INR 10 million
Cess - Health and Education cess	4%

Proposed tax rates

Sr. No.	Description	Proposed rates (Including surcharge & Cess)

(A)	Domestic Companies	Net income ≤ INR 10 million	Net income > INR 10 million, but ≤ INR 100 million	Net income > INR 100 million
1	Turnover or gross receipts in Tax Year 2024-25 ≤ INR 4 billion (Basic rate – 25%)	26.00	27.82	29.12
2	Covered under Section 199 of the IT Act (Basic rate – 25%)	26.00	27.82	29.12
3	Covered under Section 200 of the IT Act (Basic rate – 22%)	25.17		
4	Covered under Section 201 of the IT Act (Basic rate – 15%)	17.16		
5	Any other Company having turnover or gross receipts in Tax Year 2024-25 > INR 4 billion (Basic rate – 30%)	31.20	33.38	34.94
6	MAT under section 206 of the IT Act (For companies other than that covered under Section 200 and 201 of the IT Act) - Rate to be applied on book profits – basic rate 14%)	14.56	15.58	16.31
(B)	**Foreign Companies**	**Net income ≤ INR 10 million**	**Net income > INR 10 million, but ≤ INR 100 million**	**Net income > INR 100 million**
1	Effective tax rate (Basic rate – 35%)	36.40	37.13	38.22
(C)	**Firms (including LLP)**	**Net income ≤ INR 10 million**		**Net income > INR 10 million**
1	Effective tax rate (Basic rate – 30%)	31.2		34.94
2	AMT (Base rate – 18.5%)	19.24		21.55

Proposed Surcharge and Cess

Particulars	Existing and proposed

For Domestic companies covered under Section 200 and Section 201 of the IT Act	10% - Irrespective of the amount of total income
Income of specified fund (Schedule VI SI No 1 to 4 being a domestic company taxable under Section 210(1) of the IT Act	Nil
Other domestic companies	▪ NIL - If total income ≤ INR 10 million ▪ 7% - If total income > INR 10 million, but ≤ INR 100 million ▪ 12% - If total income > INR 100 million
For foreign companies	▪ NIL - If total income ≤ INR 10 million ▪ 2% - If total income > INR 10 million, but ≤ INR 100 million ▪ 5% - If total income > INR 100 million
For Firms (including LLP)	▪ 12% - If total income > INR 10 million
Cess - Health and Education cess	4%

MINIMUM ALTERNATE TAX

Amendment to Section 206 of the IT Act

- Section 206 of the IT Act is proposed to be amended to lower the MAT from 15% to 14% and treatment of MAT as final tax in old tax regime.
- This amendment is clearly signalling a push towards increased adoption of the new tax regime by not allowing MAT credit under old tax regime going forward.
- Further, accumulated MAT credit to be allowed to domestic companies opting for new tax regime for Tax Year 2026-27 shall be restricted to 25% of the tax liability under new regime.

ELP COMMENTS:

The Finance Bill keeps things unchanged for individual taxpayers under the default tax regime. There are no revisions to slab rates or the rebate structure, so the basic exemption limits, rebate thresholds, and tax rates remain the same as last year. This means taxpayers will not see any direct tax relief or immediate boost in take-home income, which could have helped ease inflationary pressures and concerns about bracket creep, especially for middle-income earners.

At the same time, keeping the existing framework intact does offer stability and predictability. Individuals can continue with their long-term financial and tax planning without having to adjust to new rules. From a policy standpoint, the Government appears to have chosen a cautious route, prioritizing revenue stability and fiscal

commitments over fresh personal tax reforms for now. In effect, the Bill leaves previous relief measures in place, without adding new benefits that could strain public finances.

The cut in MAT from 15% to 14% lowers the minimum effective tax rate for MAT-paying companies, with the largest impact on capital and incentive-heavy sectors. The MAT framework is now positioned as a transition mechanism, encouraging companies to move to the new tax regime.

Non-availability of MAT credit from Tax Year 2026-27 will impact domestic companies availing tax holidays under the old tax regime, requiring them to assess the resulting financial impact, as continued non-transition may result in such credits remaining unutilized.

Aligning self-assessment, updated return and interest provisions (Sections 266, 267, 423-425 of the IT Act) with the revised MAT framework ensures interest runs on tax net of eligible MAT credit, smoothing tax cash flows in MAT heavy years and giving more predictable profiles for rated and leveraged groups.

The Finance Bill does not alter the AMT framework; AMT for LLPs and other non-corporates effectively remain unchanged, even as companies benefit from a lower 14% MAT and clarified credit migration, which will influence medium term entity choice and restructuring decisions until AMT is separately addressed.

INCOME FROM HOUSE PROPERTY

Amendment to Section 21 of the IT Act

- Section 21 of the IT Act lays down the mechanism for determining the annual value of property chargeable to tax under the head "Income from house property".
- Sub-section (5) of Section 21 of the IT Act provides for a specific situation where property held as stock-in-trade, which is typically the case with real estate developers, is not let out for whole or part of the relevant Tax Year, then the annual value of such stock-in trade is deemed to be *nil* **for a period of two years** beginning from the end of the relevant Tax Year in which the completion certificate for construction was obtained from the competent authority.
- The Bill proposes to amend this position by replacing the words "nil for a period of two years" with "nil up to a period of two years" to align with corresponding Section 23(5) under the IT Act, 1961.
- Consequently, the annual value of stock-in-trade property that is not let out, is to be treated as nil up to two years from the end of the financial year in which the completion certificate is issued.

ELP COMMENTS:

This is a drafting alignment with the earlier Section 23(5) of the IT Act, 1961 and merely clarifies that the nil annual value for stock-in-trade property is capped upto two years from completion.

Amendment to Section 22 of the IT Act

- Section 22 of the IT Act provides for deductions available while computing income under the head "Income from house property". The provision broadly corresponds to Section 24 of the IT Act, 1961.
- Under sub-section (1) of section 22 of the IT Act, the income from house property is computed after allowing:

- a standard deduction of 30% of the annual value determined under section 21 of the IT Act;
- interest payable on borrowed capital used for acquisition, construction, repair, renewal or reconstruction of the property; and
- pre-construction / pre-acquisition interest, which is allowed in five equal instalments, beginning from the relevant Tax Year in which construction or acquisition is completed.

- Sub-section (2) of the said section provides that the aggregate amount of deduction in the case of self-occupied property shall not exceed INR 0.2 million where property is acquired or constructed with borrowed capital. However, this ceiling of INR 0.2 million did not include the deduction of prior-period interest payable for the acquisition or construction of property.
- The Bill amendment proposes to modify the said sub-section (2) to provide that aggregate amount of deduction for interest on borrowed capital shall be inclusive of prior period interest payable. As a result, the statutory threshold of INR 0.2 million under sub-section (2) now applies not only to current year interest, but also to pre-construction / pre-acquisition interest claimed in instalments.

ELP COMMENTS:

The amendment aligns Section 22 of the IT Act with the provisions of Section 24 of the IT Act, 1961, under which the aggregate deduction for interest on borrowed capital includes the prior-period interest as well. By expressly providing that the interest ceiling covers both current year interest and pre-construction/ pre-acquisition interest, the amendment removes any scope to exceed the cap by splitting prior-period interest into instalments.

PROFITS AND GAINS FROM BUSINESS OR PROFESSION

Rationalization of due date to credit employee contribution for claiming deduction

- Section 29 of the IT Act provides for deductions related to employee welfare. Clause (e)(i) of sub-section (1) provides for deduction of any amount of contribution received by the employer to which the provisions of Section 2(49)(o) apply, if such amount is credited by the employer by the due date.
- Earlier, due date meant the date by which the employer is required to credit employee contribution to the account of an employee under any Act, rule, order or notification issued under it or under any standing order, award, contract of service or otherwise.
- Section 29(1)(e) of the IT Act is proposed to be amended to provide that the due date for crediting employee contribution shall be considered as the date on or before the due date of filing of return of income under section 263(1) of the IT Act.
- The amendment will take effect from April 1, 2026 and therefore to Tax Year 2026-27 onwards.

ELP COMMENTS:

The amendment settles the controversy on whether "due date" for crediting employee contributions to recognized funds should be aligned to the timelines under labor law or the income-tax law. By tying it to the Section 263(1) return due date, the IT Act adopts a uniform, tax-centric test for deductibility and removes arguments for extended deduction windows based on differing social-security statutes. In the case of *AIMIL Ltd.*

***[2010] 321 ITR 508 (Delhi)*, Hon'ble Delhi High Court *inter alia* held that Employee contribution, deposited after due date but before close of previous year, allowable as deduction. The proposed amendment is in line with the said decision of the Hon'ble Delhi High Court.**

From an industry perspective, this pushes payroll and finance functions to hard-wire processes so that all employee contributions are funded into EPF/ESI etc. before return filing, failing which the deduction is permanently lost (subject to any separate allowance under other provisions). For large employers, especially in manufacturing and services with distributed payrolls, this increases the importance of monthly reconciliations and centralized monitoring of contribution remittances.

Alignment of Recognized Provident Fund Provisions with EPF Framework

The Finance Bill proposes amendments to *Schedule XI* of the IT Act to rationalise the provisions governing *recognised provident funds* and align them with the framework under the EPF Act and the unified restriction on employer contributions prescribed under the IT Act.

The key amendments are as follows:

- Deletion *of Paragraph 4(c) of Part A*, which required employer contributions to an EPF account to be at par with employee contributions and credited at intervals not exceeding one year. This parity-based condition has been removed in view of the overall monetary ceiling on employer contributions under section 17(1)(h) of the IT Act.
- *Substitution of Paragraph 4(f) of Part A* to clarify that only provident funds of establishments which have *obtained exemption under section 17 of the EPF Act* shall be eligible to apply for recognition under the IT Act.
- *Omission of sub-paragraph (4) of paragraph 5 of Part A*, which permitted relaxation of employer–employee contribution parity in specified cases, including low-salary employees and contingent or bonus-linked contributions. This omission is consequential to the deletion of paragraph 4(c).
- *Substitution of Paragraph 6 of Part A* to remove the percentage-based criterion under which employer contributions exceeding 12% of salary were deemed to be income of the employee. The percentage threshold has been dispensed with to align taxation of employer contributions with the *overall monetary restriction under section 17(1)(h)* of the IT Act. Under the revised provision, only *interest credited at a rate exceeding the rate notified by the Central Government* shall be taxable.
- *Amendment to Paragraph 1(e) of Part C* to enable regulation of investment or deposit of the monies of a recognised or approved provident fund through rules, in line with the prevailing EPF regulatory framework.
- These amendments shall take effect from **April 1, 2026** and shall apply in relation to **Tax Year 2026-27 and subsequent Tax Years**.

ELP COMMENTS:

The proposed amendments constitute a rationalization of Schedule XI by removing legacy, salary-linked and parity-based conditions that had become misaligned with the current provident fund regime.

The shift from percentage-based thresholds to a unified monetary cap on employer contributions enhances certainty and simplifies compliance for employers and trustees. The removal of overlapping limits is also expected to reduce interpretational disputes under the existing framework.

At the same time, the substitution of paragraph 4(f) materially tightens the recognition framework by making exemption under section 17 of the EPF Act a prerequisite for income-tax recognition. Employer-managed provident funds that do not presently operate under an EPF exemption would need to reassess their recognition status and compliance position.

Overall, while the amendments bring welcome alignment with the EPF framework, transitional and implementation guidance for existing recognized provident funds would assist in ensuring smooth adoption from Tax Year 2026-27 onward.

Omission of sub-clause (i) in clause (a) of Section 58(11) of the IT Act to expand the definition of eligible assessee

- Section 58 of the IT Act provides for presumptive taxation of profits and gains of business or profession for specified/ eligible assessees up to a prescribed turnover threshold. Further, sub-clause (i) of clause (a) of sub-section (11) of Section 58 provides that an "eligible assessee" under this Section would mean an individual, a Hindu undivided family, or a firm other than a Limited Liability Partnership, who is resident in India, and inter alia who has not claimed any deduction under Section 144 of the IT Act.
- Section 144 of the IT Act provides special provisions to newly established units in SEZs. The said Section also provides certain deductions to such SEZ units.
- It is proposed to amend sub-clause (i) in clause (a) of Section 58(11) of the IT Act by omitting the said clause. Accordingly, a SEZ unit satisfying the turnover and other conditions under Section 58 of the IT Act will be included within the definition of an "eligible assessee" and will, in turn, be eligible to avail the benefit of computing profits or gains on a presumptive basis.
- The amendment will take effect from April 1, 2026 and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

Removing the Section 144 condition from the definition of "eligible assessee" under Section 58 opens up the presumptive regime to small SEZ units that are within the Section 58 turnover threshold.

Prospectively, the SEZ units will have a choice between:

- **continuing under the SEZ deduction model (normal assessment); or**
- **shifting to presumptive taxation under Section 58.**

From an administrative angle, bringing SEZ units within the presumptive umbrella is consistent with ease of compliance and should reduce low-value disputes around books, small expenses and minor disallowances for smaller export-oriented units operating from SEZs.

Providing definition of "commodity derivative"

- The term "commodity derivative" is used in "specified derivative transaction" in Section 66 of the IT Act. Although the term commodity derivative has been defined in the IT Act, 1961, however, it is not defined in the IT Act.
- Section 66 of the IT Act is proposed to be amended to rectify the anomaly and align with the provisions of IT Act, 1961 to provide definition of "commodity derivative" in IT Act.
- This amendment will take effect from April 1, 2026 and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Tax Deduction for Prospecting of Critical Minerals

The Finance Bill proposes to expand Schedule XII to the IT Act, extending the benefit of tax deduction under section 51 of the IT Act to expenditure incurred on the prospecting and exploration of additional critical minerals.

Section 51 of the IT Act allows eligible prospecting and development expenditure to be claimed as a deferred deduction over ten years, commencing from the year of commercial production, and includes expenditure incurred in the year of production and up to four preceding years.

The expanded list includes beryllium bearing minerals, glauconite, graphite, indium bearing minerals, lithium bearing minerals, niobium bearing minerals, potash, rhenium bearing minerals and tantalum bearing minerals. The amendment will apply from Tax Year 2026-27 onwards.

ELP COMMENTS:

The amendment aligns with the Government's objective of promoting domestic extraction of critical and rare earth minerals and enhancing self-reliance by reducing import dependence in strategic sectors such as clean energy and advanced manufacturing.

While the deduction continues to be linked to commencement of commercial production, the expanded coverage improves the investment attractiveness of exploration-led projects. Taxpayers active in this space should assess the impact on project structuring and expenditure planning to optimize the benefit.

Rationalization of tax rate under Section 195 of the IT Act in respect of certain Income

- Section 195 of the IT Act provides for tax on income referred to in Section 102 to 106 of the IT Act. The said Sections provide instances where the total income of an assessee includes income on account of, unexplained credits, unexplained investment, unexplained asset, unexplained expenditure and amount borrowed or repaid through negotiable instrument, hundi, etc.
- Section 195(1) further provides that where total income of an assessee includes any income referred to in Section 102 or 103 or 104 or 105 or 106, the income-tax calculated on such income will be charged at the rate of 60%.
- It is proposed to amend Section 195 of the IT Act so as to reduce the rate of income-tax calculated on income referred to in Sections 102 to 106 from 60% to 30%.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

Under the earlier regime, income covered by Sections 102 to 106 was subjected to tax at 60% increased by a 25% surcharge and 4% health and education cess, along with a penalty under Section 443 quantified at 10% of the base tax. The effective tax burden worked out to approximately 84% of the income.

Against this background, the Finance Bill reduces the base tax rate under Section 195 from 60% to 30%, but simultaneously dismantles the earlier penalty structure by shifting the penalty exposure to Section 439(11) i.e., penalty for mis-reporting of income at 200% of the tax payable. The change is not merely technical. It represents a deliberate policy choice to replace a relatively modest and predictable penalty with a far more stringent and outcome-oriented sanction. When the reduced tax rate is combined with applicable surcharge and cess, and more critically with the enhanced penalty under Section 439(11), the effective tax liability rises sharply to as high as 128.23%.

The policy rationale and legislative intent underlying this amendment are anchored in the government's assessment that the earlier regime, despite its high nominal tax rate and an effective burden of about 84%, proved inadequate from a revenue and compliance perspective. The amended framework therefore seeks to recalibrate taxpayer behaviour by lowering the headline tax rate to reduce perceptions of excessive taxation, while simultaneously introducing a significantly harsher penalty regime that makes non-compliance economically untenable. In substance, the amendment reflects a clear shift toward a deterrence-driven and compliance-focused model, aimed at improving voluntary disclosure, strengthening enforcement credibility, and enhancing overall revenue collection.

CAPITAL GAINS AND OTHER SOURCES

Amendment to Section 69 of the IT Act

- Presently, buy back proceeds are treated as dividends as per Section 2(40)(f) of the IT Act. Such receipts are taxed in the hands of recipients as "dividend" under the head "Income from Other Sources".
- The Finance Bill proposes to treat receipt of buy back proceeds as consideration received on sale of shares.
- It is also proposed that for promoters receiving buy back proceeds, the effective tax rate shall be 22% where the promoter is a company, and 30% for others.
- The Finance Bill further defines the term "promoter" as:
  - a "promoter" as defined in Section 2(69) of the Companies Act, 2013; or
  - a person who holds, directly or indirectly, more than 10% of the shareholding in the company.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

The amendment removes the structural mismatch in taxation of buy back, where gross receipts were earlier taxed as 'Dividend' under 'IFOS' and cost of acquisition of such shares bought back being regarded as capital loss under 'CG'.

The proposed amendment now recognizes the substance of buy back arrangements as sale of shares, and therefore, income from buy-back is taxed as 'CG'. From another perspective, the amendment results in tax being paid correctly on 'net-gain' as against on 'gross receipt' being taxed as dividend.

Prospectively, for Companies, the set-off of dividend paid against the Buy Back receipt under Section 148 of the IT Act would not be available, as the buy-back proceeds would be treated as consideration for sale of shares, and not as dividend received.

Amendment to Section 70 of the IT Act

- Sovereign Gold Bonds are issued by the Reserve Bank of India on a recurring basis through multiple series notified from time to time, with each series constituting a separate issuance. The redemption of the said Bonds to all the individuals is exempt under Section 70 of the IT Act.
- The proposed amendment clarifies that the exemption shall be available only to the original investor who continues to hold the bonds until maturity.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

The amendment confines the exemption to original subscribers who hold Sovereign Gold Bonds to maturity. Accordingly, any pre-mature redemption or transfer of bonds, would result in exemption not being available thereby deterring the bond holders from engaging in transfers / redemptions based on price fluctuations and aligning treatment with the scheme's savings instrument character.

Amendment to Section 93 of the IT Act

- Presently, Section 93(2) of the IT Act permitted deduction of interest expenditure incurred for earning gross dividend income or income from units of mutual funds, subject to a ceiling of 20% of such income.
- The Finance Bill proposes that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

The proposed amendments to Section 93 effectively convert dividend and mutual fund income mainly into a gross taxable stream without deductions for interest expenses. This could increase the tax burden on leveraged investments.

Amendment to Schedule III of the IT Act

- Schedule III of the IT Act provides for certain income not to be included in the total income of the eligible persons.
- Clause 38A is now inserted in Schedule III of the IT Act to include income in the nature of disability pension received by an individual who has been a member of the armed forces (including paramilitary forces) of the Union subject to certain exceptions. Accordingly, such disability pension would not form part of the total income in case of such specified individuals.
- The amendments will take effect from April 1, 2026 and therefore to Tax Year 2026–27 onwards.

Exemption of income on compulsory acquisition of land under the RFCTLARR

- Section 11 read with Schedule III of the IT Act exempts certain incomes of specified persons. One of these is capital gains for individuals/HUFs on transfer of specified agricultural land, subject to conditions.
- Separately, Section 96 of the RFCTLARR provides that income-tax shall not be levied on any award or agreement (other than those under Section 46) made under the RFCTLARR.
- CBDT Circular No. 36/2016 clarified that such compensation, exempt under Section 96 of RFCTLARR, would also not be taxable under the IT Act, 1961, even though the IT Act, 1961 did not have a specific exemption provision.
- Schedule III to the IT Act is proposed to be amended to expressly exempt any income in respect of any award or agreement made on account of compulsory acquisition of any land, carried out on or after April 1, 2026, under the RFCTLARR (other than an award or agreement made under Section 46 of RFCTLARR). The exemption applies to individuals and HUFs. The words “any income in respect of any award or agreement” go beyond just “capital gains” and are not limited to agricultural land. They can cover compensation, enhanced compensation and related income including interest) so long as it arises from compulsory acquisition of any land under RFCTLARR.
- The change applies from April 1, 2026 and is relevant from Tax Year 2026-27 onwards. The acquisition itself must be carried out on or after April 1, 2026.

ELP COMMENTS:

The amendment incorporates the exemption that was earlier provided under Section 96 of the RFCTLARR and CBDT Circular 36/2016 into the IT Act. The amendment also considers the decision of the ITAT Amritsar Bench in Surinder Kumar (116 ITR(T) 529) wherein it was held that compensation from compulsory acquisition of land under the National Highways Act is exempt from income tax by virtue of Section 96 of the RFCTLARR, 2013 and CBDT Circular No. 36/2016. The ITAT relied on the decision of the Supreme Court in *Tarsem Singh Civil Appeal No. 7064 of 2019,* which applied RFCTLARR to National Highways acquisitions.

The relief provided by way of this amendment is broader than the old capital-gains exemption for specified agricultural land. It will especially help owners of non-agricultural, and urban land acquired for roads, rail, metro, industrial corridors and other public projects.

The exclusion of Section 46 means acquisitions done through company-driven or mixed (hybrid) RFCTLARR structures remain taxable. For private/ PPP projects where tax-free compensation to landowners is important, parties are more likely to use either a pure compulsory RFCTLARR acquisition (not under Section 46) or a direct private purchase, rather than a Section 46 route.

In practice, from April 1, 2026, individuals and HUFs can generally treat compensation and related amounts from RFCTLARR compulsory acquisitions (other than Section 46 cases) as exempt, provided they can establish that:

- **the award or agreement is under the RFCTLARR Act and not under Section 46; and**
- **the acquisition was carried out on or after April 1, 2026.**

Earlier, the ITAT Amritsar Bench in *Surinder Kumar* has already applied Section 96 of the RFCTLARR and CBDT Circular No. 36/2016 to hold that compensation received on compulsory acquisition of land under the National Highways Act is exempt from income tax, even where the acquisition is formally under a different statute but compensation is computed by importing RFCTLARR principles. The Tribunal followed Supreme Court, High Court and co-ordinate bench rulings (including Tarsem Singh, Gopa Ram, Modan Singh and Ranjit Singh) to confirm that RFCTLARR-based compensation enjoys exemption under Section 96 read with the Circular. The proposed amendment, by writing this position into the IT Act itself, is therefore largely curative and codifies an approach that has already been judicially accepted in such cases, which should reduce future litigation around compulsory acquisitions for highway and similar projects.

INCENTIVIZING FOREIGN INVESTMENTS

Amendment to Schedule IV of the IT Act

- Schedule IV of the IT Act specifies certain categories of income that are excluded from the total income of the eligible non-residents and foreign companies.
- Schedule IV of the IT Act is proposed to be amended to include the following new clauses:
  - Clause 13A is inserted to provide that any income arising to a foreign company upon providing capital goods, equipment or tooling, offering similar equipment / capital goods to a resident corporate contract manufacturer (located in a custom bonded warehouse) for use in electronic manufacturing in India shall not be included in the total income of such foreign company, subject to certain conditions as provided in the said clause.
  - Clause 13B is inserted to provide that any income which accrues or arises outside India (and is not deemed to accrue or arise in India) to a non-resident individual shall not be included in the total income of such individual from any services provided in India in connection with any central government notified scheme, provided such individual has been a non-resident for the five years immediately before the year of first visit to India. It is pertinent to note that such exemption shall not be available beyond a period of five consecutive Tax Years commencing from the first Tax Year during which he visits India in connection with such scheme.
  - Clause 13C is inserted to provide that any income which accrues or arise in India or deemed to accrue or arise in India to a foreign company by way of procuring data centre services from a specified data centre shall not be included in the total income of such foreign company. Such exemption shall be available upto Tax Year ending on March 31, 2047. The said exemption is subject to certain exceptions / conditions as provided for in the said clause.
- The amendments will take effect from April 1, 2026 and therefore to Tax Year 2026–27 onwards.

ELP COMMENTS:

Above exemption related to Data Centre aligns with India's evolving data governance and privacy framework, including the Digital Personal Data Protection regime, and reflects a calibrated incentive to attract global digital business without ceding control over critical digital infrastructure.

Although the presence of a data centre in India could otherwise give rise to a permanent establishment and corresponding tax exposure for foreign companies, the proposed provision expressly exempts such income, thereby removing a key structural impediment.

IFSC RELATED AMENDMENTS

Extension of the tax holiday period for the units located in IFSC

- At present, Section 147 of the IT Act provides a tax holiday for units located in an IFSC for a consecutive period of 10 years out of 15 years and for OBUs for the consecutive period of 10 years. Broadly, eligible IFSC units can currently claim a deduction of 100% of specified business income for a capped period within an overall time block, and OBUs enjoy a similar, but separate, time-bound deduction regime. Once this tax holiday period ends, the business income of such units is taxed at the normal corporate tax rates.
- The Finance Bill, proposes to significantly extend and modify this regime. It seeks to extend the tax holiday period for IFSC units to 20 consecutive years out of a block of 25 years, and to 20 consecutive years for OBUs.
- In addition, the Finance Bill proposes that, after the expiry of this 20-year deduction period, the business income of such IFSC units will be taxed at a concessional rate of 15%, instead of the standard corporate tax rate.

Exemption from the applicability of the deemed dividend from the Finance Company shall be available only to the country of listing, which is notified by the Central Government

- Under Section 2(40)(v) of the IT Act, certain loans and advances given by a closely held company to its shareholders (or to concerns in which such shareholders have substantial interest) are treated as "deemed dividend" and taxed accordingly. This is an anti-avoidance provision aimed at preventing tax-free distribution of accumulated profits in the guise of loans or advances.
- Recognising the distinct nature and policy objectives of entities operating in an IFSC, the Finance Act, 2025 introduced a relaxation from these deemed dividend provisions. Specifically, it provided that loans and advances received by a parent entity listed on a recognised stock exchange outside India, from a Finance Company located in an IFSC, would not be treated as deemed dividend, subject to prescribed conditions. This was intended to facilitate cross-border group financing through IFSC based entities and enhance the competitiveness of IFSC as a global financial hub.
- The Finance Bill now proposes to tighten this relaxation by linking it to the jurisdiction of listing. It is proposed that the exemption from deemed dividend in respect of loans and advances received by a foreign-listed parent entity from a Finance Company in an IFSC will be available only where the country in which the parent entity is listed is notified by the Central Government.
- In other words, the benefit of the deemed dividend relaxation will be restricted to parent entities listed in such foreign jurisdictions as may be specifically notified, thereby allowing the Government to ring-fence the relief to countries that meet desired regulatory, transparency, or tax policy standards.

- This amendment is proposed to come into effect from April 1, 2026 and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Certainty in the tax rates for the units located in IFSC post tax holiday period - Sections 217 and 218 of the IT Act

- The Finance Bill proposes to substitute Sections 217 and 218 of the IT Act with new sections, which are in relation to the availability of benefits under Part E of Chapter XIII - Special provisions relating to non-residents and foreign company, where a non-resident assessee becomes a resident, and the provisions of the said Chapter shall not apply if the non-resident assessee so chooses, respectively.
- Section 217 has been rationalised to expressly provide an option to a non-resident Indian to either continue or opt out of the special tax regime applicable to investment income from foreign exchange assets. While sub-section (1) continues the benefit of concessional taxation under Sections 212 to 216 even after the assessee becomes resident in India (subject to declaration), the newly introduced sub-section (2) now allows a non-resident Indian to voluntarily opt out of this special regime for any Tax Year by making a declaration in the return of income. Where such option is exercised, the concessional provisions shall not apply for that Tax Year, and the total income shall be computed and taxed in accordance with the general provisions of the IT Act.
- The substitution of Section 218 of the IT Act proposes to give effect to the taxation of income of units of IFSC, and OBUs after the expiry of the tax holiday period at the rate of 15%.
- This amendment is proposed to come into effect from April 1, 2026 and accordingly would apply in relation to the Tax Year 2026-27 and thereafter.

Alignment of certain provisions of the Income-tax Act, 1961, with the similar provisions stipulated in the IT Act

- The Finance Bill proposes to amend Note 1(g) to Schedule VI of the IT Act, 1961, to align the definition of "specified fund" in that Schedule with the definition already given in Section 10(4D) of the IT Act, 1961. Under the revised clause (g)(C), all units of a "specified fund", other than the unit held by a sponsor or manager, must be held by non-residents, with two exceptions: (I) a person who was a non-resident and later becomes resident under section 6(2), (3), (4), (5), (6) or (7) in a later Tax Year may continue to hold units; and (II) all such resident unit holders together must hold not more than 5% of the total units issued and must satisfy any other conditions that may be prescribed. In sub-clause (ii), item (A) of Note 1, the year "2025" is also proposed to be replaced with "2030", extending the time limit.
- These changes will take effect from April 1, 2026 and will apply from Tax Year 2026-27 onwards. They are primarily clarificatory and alignment changes and do not alter the existing substantive provisions of the IT Act, 1961, including Section 10(4D), which remain the same.

ELP COMMENTS:

The Bill's proposal to extend the tax holiday for GIFT City IFSC units from 10 to 20 years, followed by a flat 15% tax rate thereafter, is a deliberate long-horizon incentive to position GIFT City as India's primary international financial hub. Since the inception of the IFSC, GIFT City has seen a steady increase in foreign investments over the last few years, however, many early investors, constrained by initial infrastructure and ecosystem gaps within GIFT City, have not been able to operate at the scale or efficiency originally envisaged. In this context, the extension of the

tax holiday is a welcome and corrective measure, it not only strengthens the proposition for future foreign investors but also effectively extends the runway for existing investors so that they are not disadvantaged relative to later entrants. Compared with the 35% base rate for foreign companies outside GIFT City, this two-stage regime (0% for 20 years, then a concessional 15%) makes it significantly more attractive for global reinsurers, banks, funds and other financial institutions to base international operations in IFSC, offering both immediate tax savings and long-term predictability.

Strategically, this move is intended to compete with regional financial centres like Singapore and Dubai, encourage "India-related" offshore structures to migrate onshore into GIFT City, and deepen India's role in global capital flows. While it involves a clear revenue trade-off for the government, it is expected that the gains in market depth, employment, and ancillary services will outweigh the loss in direct tax collection.

There is an interaction with global initiatives such as the OECD's Pillar Two global minimum tax as well. Large multinational groups will need to analyse whether a 0% or 15% rate in GIFT City is fully effective at the group level or partially neutralized by top-up taxes elsewhere.

TONNAGE TAXATION

Amendments in Chapter XIII-G of the IT Act for giving effect of Tonnage Tax Scheme to Inland Vessels

- Chapter XIII-G (Special provisions relating to income of shipping companies) of the IT Act provides for special provisions relating to income of shipping companies. Vide Finance Act, 2025, benefit of Tonnage Tax Scheme was extended to inland vessels registered under the Inland Vessels Act, 2021 to promote inland water transportation.
- Accordingly, it has been proposed to rationalise certain provisions of the Tonnage Tax Scheme under the IT Act to align them with the Inland Vessels Act, 2021 and the allied rules.
- Section 227 of the IT Act relates to computation of tonnage income. Section 227(4) of the IT Act provides that 'tonnage' shall mean the tonnage of a ship or inland vessel, as indicated in the certificate issued by the Director-General of Shipping or under the Inland Vessels Act, 2021. It has been proposed to replace the term "certificate" with "valid certificate" in Section 227(4)(a) to align it with Section 227(9)(b) which presently stipulates the term "valid certificate" as a definition. Further, under Section 227(9)(b), to determine the tonnage of an inland vessel for computation of tonnage income, the word "Certificate of registration" is proposed to be substituted in place of the word "certificate".
- Section 228 of the IT Act relates to relevant shipping income and exclusion from book profit. It provides that on-board or onshore activities of passenger ships would be included in the core activities of a tonnage company. It is proposed to amend the said provision to bring inland vessels under its purview.
- Section 232 of the IT Act relates to certain conditions for applicability of Tonnage Tax Scheme. Section 232(12) has been proposed to be amended to insert reference to guidelines related to minimum training requirements in case of inland vessels. Further, Section 232(13) has been proposed to be amended to refer to the 'designated authority' in respect of obtaining a certificate of compliance for minimum training requirements for inland vessels, since the designated authority for vessels under Merchant Shipping Act, 1958 and the Inland Vessels Act, 2021 differ. Section 232(17) provides that the average of net tonnage shall be computed in the manner prescribed, in consultation with the Director-General of Shipping. It is proposed to amend Section 232(17) to add reference to Inland Waterways Authority of India, in case of inland vessels.

- Section 235 relating to definitions pertaining to Chapter XIII-G is proposed to be amended to provide for definition of "Inland Waterways Authority of India", having the same meaning in Section 3 of the Inland Waterways Authority of India Act, 1985.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

The proposed amendments are in continuation of the policy direction set by the Finance Act, 2025, which extended the Tonnage Tax Scheme to inland vessels registered under the Inland Vessels Act, 2021. The proposed changes remove structural and procedural inconsistencies that could otherwise impede adoption of the Tonnage Tax Scheme by inland vessel operators.

The amendments are closely aligned with the objectives of the Maritime India Vision 2030, which emphasizes modal diversification, decongestion of road and rail networks, reduction in logistics costs, and promotion of inland waterways as an integral component of India's maritime and transport ecosystem. By extending the certainty and tax efficiency of the tonnage tax regime to inland shipping, the amendments are expected to encourage investment in inland vessel fleets, port and terminal infrastructure, and ancillary services, thereby supporting sustainable growth in the sector.

INSURANCE BUSINESS

Allowing deduction to insurance business (other than life insurance) when TDS, not deducted earlier is paid later

- Part B of Schedule XIV of the IT Act provides for computation of profits and gains from insurance business other than life insurance. Paragraph 4(1)(a) of Schedule XIV provides that while computing the profits and gains of such business, any expenditure, allowance, etc. which has been debited to profit and loss account but which is inadmissible under Sections 28 to 54 shall be added back.
- Section 35(b)(i) and (ii) of the IT Act provides that any sum, interest, etc. payable on which tax is deductible at source but has not been deducted or deducted but not paid within the due date specified in Section 263(1), then the amount shall not be allowed as deduction. However, Section 35(b)(i) and (ii) also provide that the amount disallowed shall be allowed in a Tax Year when the due tax was deducted and paid as per the provisions of the section.
- Paragraph 4(2) of Schedule XIV provides that any amount payable under Section 37 of the IT Act, which is added under paragraph 4(1)(a) shall be allowed as deduction in the Tax Year in which it has been actually paid. However, similar provision has not been provided under Section 35(b)(i) and 35(b)(ii) of the IT Act.
- It is proposed of amend Schedule XIV of the IT Act by inserting a new sub-paragraph which will provide for allowance of such amount as deduction in a subsequent Tax Year.
- This amendment will take effect from April 1, 2026 and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

Schedule XIV of the IT Act, read with Section 55, is intended to be a self-contained code for computing profits of insurance business, in line with the earlier regime under the First Schedule to the IT Act, 1961 for general insurers. Section 35(ib) of the IT Act allows deduction of business expenditure for general insurance companies, even where there is a temporary lapse in deduction or payment of TDS that is later cured. This mirrors the position under Section 40 of the IT Act, 1961 where disallowance was only a timing issue and the expenditure ultimately became allowable once TDS conditions were met.

Under the IT Act, 1961, field officers have often applied Section 40(a)(i)/(ia) mechanically to general insurance companies, despite the special computation mechanism in Rule 5 of the First Schedule. This has, in practice, turned timing differences into quasi-permanent disallowances and created conflict between the insurance-specific code and the general TDS-disallowance provisions. The impact has been severe in respect of reinsurance premium, reinsurance commission and co-insurance administration payments, where large recurring additions have been made only on the ground of alleged TDS defaults.

High Courts and ITAT, in a series of decisions involving leading general insurers, have held that reinsurance premium paid to non-resident reinsurers without a business connection or PE in India is not taxable in India and thus cannot trigger disallowance under Section 40(a)(i). Notwithstanding this, litigation continues and has resulted in very substantial tax demands and mandatory pre-deposit outflows, which directly erode capital adequacy of general insurers.

In this background, an express clarification in Schedule XIV will align the IT Act with its stated objective of reducing disputes, while keeping the discipline of the TDS regime intact. It should make two points clear for general insurance business: (a) TDS-related disallowance cannot override the sector-specific computation rules in Schedule XIV; and (b) once the TDS defect is rectified under Chapter XVII-B, the corresponding expenditure remains fully deductible for that year. This important change will close a long-standing controversy under the IT Act, 1961, reduce avoidable litigation and cash-flow strain for insurers, and provide greater certainty during the transition to the IT Act.

TRANSFER PRICING

Amendment to Section 166(7) of the IT Act

- Section 166(7) of the IT Act [Section 92CA(3A) of the IT Act, 1961] provides that TPO is required to pass an order 60 days prior to the date on which period of limitation for passing the assessment/ reassessment order expires.
- There was litigation in courts as to how the period of sixty days referred in section 92CA(3A) of the IT Act, 1961 is required to be computed. Various courts [including Madras HC in case of Pfizer Healthcare India Pvt. Ltd. (433 ITR 28)] have held that the 60-day period does not include the last date of limitation. However, the legislative intent was to provide clear 60 days for the completion of final assessment.
- To avoid interpretational issues and prevent litigation, it is proposed to retrospectively amend Section 92CA of the IT Act, 1961 (Section 166(7) of the IT Act) to revise the period of limitation for passing TPO order as under:

Particulars	Period of limitation

If period of limitation for passing assessment/ reassessment order expires on 31st March of any year	31st January of that year
If period of limitation for passing assessment/ reassessment order expires on 31st December of any year	31st October of that year

ELP COMMENTS:

By replacing the calculation of limitation period from being computed in days (60 days) to being computed in months (one month), Finance Bill eliminates the scope of litigation on the issue of limitation.

Pertinently, the aforesaid amendment overturns the rulings of various Courts that had quashed the TPO orders on the ground that such orders were not passed within the 60-day time period prescribed under the erstwhile provisions, and adversely impacts petitions pending before the Hon'ble Supreme Court, effectively benefiting the Revenue.

Amendment to Section 169

- Section 169(1) provides that in case of receipt of an APA, modified return for Tax Years covered under APA may be filed within 3 months from the end of the month in which the APA was entered.
- The existing provisions relating to APA contained in Section 168(1) allow filing of a modified return of income only by the person who has entered into APA with the Board. The provisions do not allow for modifying the return of income by the AE whose income and tax liability is correspondingly modified consequent to the APA.
- The Finance Bill proposes to allow AE of the entity subjected to APA to file modified return within 3 months from the end of the month in which APA is entered, in respect of Tax Years covered by such agreement.
- The amendment will take effect from April 1, 2026 and therefore apply to Tax Year 2026–27 onward.

ELP COMMENTS:

The amendment gives associated enterprises of an APA-covered taxpayer a statutory route to align their own returns with the agreed pricing. This may reduce instances of economic double taxation within the group, lower the risk of mismatches between Indian and overseas positions, and improve closure on covered years for both inbound and outbound APA cases. For MNE groups using APAs as a core TP risk-management tool, the ability for AEs to file modified returns within the same 3-month window materially strengthens the effectiveness and practical utility of the APA programme.

Amendment proposed to Safe Harbour Rules

- In the Union Budget Speech presented, Hon'ble Finance Minister announced major reforms to the Safe Harbour regime. The salient features of the proposed reforms are outlined below:

- ***Single IT Services Category:*** Software development, IT-enabled services, KPO, and contract R&D (software-related) will be clubbed under one category – "Information Technology Services."
- ***Uniform Safe Harbour Margin:*** A common operating margin of 15.5% is proposed to be applied across all IT services, replacing multiple, higher margins and reducing classification disputes.
- ***Significant Threshold Expansion***: Safe Harbour eligibility limit for IT services is proposed to be increased from INR 300 crore to INR 2,000 crore, substantially expanding coverage of mid and large IT service providers and GCCs.
- ***Automated, Rule-Based Approval:*** Safe Harbour applications will be approved automatically, without tax officer's examination. Once opted, the Safe Harbour may be continued for up to 5 consecutive years, at the taxpayer's choice.
- ***Fast-Tracked Unilateral APAs:*** For taxpayers opting out of Safe Harbour, Unilateral APAs for IT services are proposed to be concluded within 2 years, extendable by 6 months on request.

ELP COMMENTS:

The above relaxation in IT Sector has been announced by the Hon'ble Finance Minister in the Union Budget Speech. The formal amendments to the Safe Harbour Rules may be implemented through the relevant legislative and regulatory notifications in due course.

Once implemented, these proposals are expected to enhance tax certainty, reduce TP litigation, and simplify the TP framework for India's IT sector, further reinforcing role of IT Sector as a key growth engine of the Indian economy. However, it's important that before opting, taxpayers evaluate whether the proposed margin offer a real economic benefit compared to their existing pricing and ability to defend arm's-length outcomes under a regular TP analysis.

Amendment to Section 379 of the IT Act

- Section 379 of the IT Act provides for constitution of the Dispute Resolution Committee. The said Committee is empowered to reduce or waive penalties "imposable" in specified order and grant immunity from prosecution, with the objective of reducing litigation.
- Section 379(2) of the IT Act is proposed to be amended, in light of the amendment proposed in Section 471, to specifically provide that the penalty "imposed" (along with "imposable") in the specified order may also be waived off by the Dispute Resolution Committee.
- This amendment will take effect from April 1, 2026 and shall apply for Tax Year 2026-27 and subsequent Tax Years.

ELP COMMENTS:

The Dispute Resolution Committee was introduced with the objective of providing small and medium taxpayers with a fast-track and efficient mechanism for resolution of disputes. Amendments have been proposed to Section 471 of the IT Act to empower the Assessing Officer to pass a common order for determination of both tax and penalty, with a view to avoiding multiplicity of proceedings. Consequently, the Dispute Resolution Committee has

also been specifically empowered to waive the penalty imposed under such common order determining both tax and penalty.

Removal of transactions with SEZ units from the ambit of transfer pricing (Section 162, Section 164 and Section 165)

- Section 162 (definition of the term "associated enterprises"), Section 164 (definition of the term "specified domestic transaction") and Section 165 (determination of "Arm's Length Price") of the IT Act is proposed to be amended to exclude transaction entered by SEZ claiming exemption u/s 144 of the IT Act, i.e. under section 10AA of the IT Act, 1961.
- Under the erstwhile provisions, transaction entered by SEZ claiming 10AA deduction with any other domestic entity under the domestic tariff area was considered as "Specified Domestic Transaction" and subject to transfer pricing compliance. Consequent to the proposed changes, SEZ units eligible for Section 10AA exemption shall no longer be subject to TP rules and regulation in respect to transaction with the companies incorporated outside SEZ.
- The amendment will take effect from April 1, 2026 and therefore apply to Tax Year 2026–27 onward.

ELP COMMENTS:

The aforesaid amendment provides significant compliance relief qua specified domestic transactions to the SEZ companies claiming benefit of exemption u/s 10AA of the IT Act, 1961. Resultantly, SEZ companies will have to undertake TP compliance only with respect to international transactions with AEs.

Assessment timeline in case of TP and non-resident cases

- Section 144C of the IT Act 1961 provides a special assessment procedure in cases involving TP adjustments or non-resident taxpayers, whereby the AO is required to issue a draft assessment order to the eligible assessee. The assessee may either accept the draft order or file objections before the DRP, which is required to issue its directions within nine months from the end of the month in which the draft order is issued, following which the Assessing Officer passes the final assessment order in conformity with such directions.
- In this regard, issue arises whether the timeline prescribed to pass assessment order under section 153 is applicable to Final assessment order or Draft assessment order.
- In case of Shelf Drilling Ron Tappmeyer Ltd. [2023] 153 taxmann.com 162 (Bombay), the Bombay High Court held that Section 144C is essentially procedural in nature and does not operate independently of the outer limitation period prescribed in Section 153(3), particularly where a fresh assessment is made pursuant to a remand by the Income Tax Appellate Tribunal. Accordingly, the Assessing Officer was required to both issue the draft assessment order and complete the entire DRP process and final assessment within the Section 153 timeline, failing which the assessment was held to be time-barred.
- On appeal, the Supreme Court in Shelf Drilling Ron Tappmeyer Ltd. [2025] 177 taxmann.com 262 (SC) delivered a split verdict and the same is currently pending for resolution by a larger bench.

- Now, the Finance Bill proposes to resolve this conflict by amending both Sections 153 and 144C. A new Sub-Section (10) to Section 153, with retrospective effect, clarifies that a draft assessment order under Section 144C(1) may be made at any time up to the limitation prescribed for assessment, reassessment, or recomputation under Section 153, and is deemed always to have been so permitted, thereby linking the general limitation only to issuance of the draft order.
- New Sub-Sections (4A) and (13A) in Section 144C provide that, where a draft order is issued within the limitation under Sections 153 or 153B, completion of the assessment is governed solely by the internal timelines in Section 144C. These provisions apply notwithstanding Sections 153 and 153B or any judgment of any court, thereby legislatively rejecting the view that the entire DRP process must be completed within the general limitation period.
- These amendments are framed as clarificatory and retrospective for assessments under the IT Act, 1961, dating back to the introduction of the DRP regime, while corresponding provisions under the IT Act will apply prospectively from April 1, 2026.
- Corresponding amendments has been made in Section 275 and 286 of the IT Act.

ELP COMMENTS:

The amendment brings procedural certainty, confirming that once the draft assessment is issued, DRP and AO timelines run independently, and procedural defences based on DRP delays are no longer available.

In pending cases where the draft assessment order was issued within the limitation prescribed under Sections 153 or 153B but the DRP proceedings and final order extended beyond that period, taxpayer reliance on Shelf Drilling is now substantially weakened. However, draft orders issued beyond limitation remain invalid, and assessments already quashed by final judicial orders are not expressly validated, leaving scope for further, fact-specific litigation.

ASSESSMENT PROCEDURES

Rationalizing the period of block in case of other persons

- Section 295 of the IT Act deals with cases where, during a search or requisition action against one person (the "specified person"), the tax authorities discover undisclosed income belonging to another person ("other person").
- Under the existing framework, the material seized is to be transferred to the assessing officer of such other person and block assessment proceedings are to be initiated against the other person under Section 294 of the IT Act. Such block period applicable to the specified person and the other person is the same, even where the undisclosed income of the other person relates only to a single Tax Year. This could result in a full block assessment compliance burden being imposed on a person against whom no search was initiated and whose linkage may be limited to only one year.

- The Finance Bill proposes to amend Section 295(2) to provide that, in the case of such other person the block period may be restricted, instead of applying the same block period as that applicable to the searched person, thereby reducing the compliance burden where the undisclosed income relates to a limited period.
- This amendment is intended to reduce unnecessary procedural hardship and compliance load for third parties incidentally covered in search-related proceedings.
- This amendment is proposed to come into effect from April 1, 2026, for search or requisition initiated or made as the case may be, on or after such date and accordingly would apply in relation to Tax Year 2026–27 and thereafter.

ELP COMMENTS:

The proposed amendment marks a significant procedural rationalisation in the block assessment regime. The extension of block assessments to "other persons" has often resulted in disproportionate compliance burdens, even where third-party involvement is merely incidental or limited. By enabling a more calibrated block period for such persons, the amendment aligns with principles of proportionality and fairness and is expected to provide targeted relief where no search has been initiated against the third party and the linkage arises only from seized material.

Referencing the limitation period for completion of block assessment to initiation of search / requisition

- The Finance Bill proposes to amend Section 296 of the IT Act, which currently prescribes that a block assessment order under Section 294 must be completed within 12 months from the end of the quarter in which the last search authorization was executed or requisition was made.
- It has been noted that linking limitation to the execution of the last authorization can result in inconsistent limitation periods across group search cases, where proceedings are typically conducted in a coordinated manner.
- Accordingly, it is proposed to shift the reference point to the end of the quarter of initiation of search or requisition and correspondingly extend the completion timeline from twelve months to eighteen months.
- The amendment is proposed to take effect from April 1, 2026 and for search or requisition is initiated or made as the case maybe, on or after 1st day of April, 2026 and thereafter.

ELP COMMENTS:

The amendment seeks to standardise limitation computation in block assessment cases by shifting the reference point from execution of the last authorisation to the initiation of search or requisition. While the statutory period is proposed to be increased from twelve months to eighteen months, linking limitation to the earlier event of initiation may, in practice, curtail the extended time that could previously arise where subsequent authorisations were executed much later. The change therefore balances administrative uniformity with a more predictable and anchored limitation framework.

Clarification regarding jurisdiction to issue notice under Section 148 and to carry out pre-assessment procedure under Section 148A

- The Finance Bill proposes to insert Section 147A to clarify, notwithstanding any judgment, order, decree, that for the purposes of Section 148 and 148A of the IT Act 1961, the term "assessing officer" shall mean and shall always be deemed to have meant an assessing officer other than the NaFAC or any of its assessment units. Corresponding amendments are proposed in Section 279 of the IT Act, to align interpretation under the new law.
- As regards the IT Act 1961, this amendment shall operate retrospectively from April 1, 2021, while qua the IT Act, the same will be effective from April 1, 2026 and thereafter.
- The Courts had in several cases (inter alia in Jatinder Singh Bhangu and Jyoti Sareen vs. Union of India- 2024 (7) TMI 1191, Hexaware Technologies Limited v. Assistant Commissioner of Income Tax 2024 (5) TMI 302) held/ proceeded on the basis that, post notification under Section 151A (i.e. faceless assessment of income escaping assessment), initiation steps under Sections 148A / 148 must also adhere to the faceless framework and hence, notices/orders issued by the jurisdictional AO (JAO) were treated as lacking jurisdiction / contrary to the scheme. At the same, certain other decisions (including in Triton Overseas Private Limited v. Union of India 2023 (9) TMI 1465) had upheld initiation of such action, typically reasoning that the scheme does not completely oust statutory jurisdiction unless clearly so provided. The matter currently is pending before the Hon'ble Supreme Court.
- This amendment is aimed at legislatively settling a live jurisdictional controversy that has produced conflicting High Court outcomes on whether the pre-notice reassessment stage (148A/148) must be undertaken within the faceless framework.

ELP COMMENTS:

The proposed clarification unequivocally legislates in favour of the "jurisdictional assessing officer only" construct for purposes of Sections 148 and 148A, by expressly excluding NaFAC and its assessment units from the initiation and pre-notice enquiry stage.

In effect, the amendment seeks to override the line of judicial authority which had interpreted the faceless reassessment scheme as extending even to the issuance of notices and orders under Sections 148A/148, and retrospectively validates initiation actions undertaken by jurisdictional officers.

The retrospective operation from April 1, 2021 is particularly significant, as it is intended not only to settle the jurisdictional controversy but also to insulate past reassessment initiations from invalidation on procedural grounds.

At the same time, such retrospective legislative intervention may raise issues regarding the extent to which Parliament can neutralise judicial interpretation of statutory schemes, and may have material implications for pending writ petitions, appeals, and cases already decided under the contrary view. From a structural standpoint, the amendment restores the intended statutory demarcation whereby satisfaction and initiation remain with the jurisdictional officer, while the faceless architecture operates only at the reassessment stage thereafter. The need for this express "notwithstanding any judgment" clarification also underscores the ambiguity in the earlier notification framework under Section 151A, which had led to divergent High Court outcomes and sustained litigation.

Curative Provision for Document Identification Number

- Following CBDT Circular No. 19 of 2019 dated 14.08.2019, which mandated the use of a computer-generated DIN on assessment orders, several High Courts annulled assessments on technical grounds due to lack of DIN on the assessment orders.
- Retrospective amendment to Section 292B of the IT Act, 1961 (effective October 1, 2019) and a corresponding amendment in the IT Act is proposed clarifying that no assessment shall be deemed invalid due to any mistake, defect, or omission in quoting a DIN, as long as the order is referenced by such a number in any manner.

ELP COMMENTS:

The High Courts in many cases observed that the 2019 Circular left neither any scope for debate nor any leeway for an alternate view, treating the absence of a DIN as a jurisdictional fatality that rendered assessments non est. [Brandix Mauritius Holdings Ltd. 2023 (4) TMI 579 – Delhi High Court]

While the amendment neutralizes challenges based on simple quoting errors, it does not provide a blanket immunity for orders that are completely untraceable within the system or where the order is not referenced by DIN in any manner.

PENALTY AND PROSECUTION

Amendment to Section 439 and 443 of the IT Act

- A new clause (g) to sub-section (11) of Section 439 is proposed to be inserted to treat the income on account of unexplained credits, unexplained investments, unexplained assets etc. (referred to in Section 102 to 106 of the IT Act) not reflected in the returns and determined by the Assessing Officer, as a case of misreporting of income.
- Accordingly, separate penalty provision under Section 443 (penalty for income referred to in Section 102 to 106 of the IT Act) is proposed to be omitted and subsumed under Section 439(11) of the IT Act.
- While Section 443 prescribed penalty of 10% of the tax payable, the penalty payable under Section 439 on misreporting of income is 200% of the tax payable on the under-reported income.
- Sub-section (13A) is proposed to be inserted to Section 439 of the IT Act to provide that where additional income-tax is paid as per proposed additional income-tax payable under Section 267 (tax on updated return), the income on which such additional income-tax is paid shall not form the basis of imposition of penalty under Section 439.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

Increase of penalty in case of income arising out of certain unexplained investments, assets, etc is likely to deter tax payers on this front and ensure compliances and adequate disclosures.

Amendment to Section 440 of the IT Act – Waiver of penalty and immunity from prosecution

- Section 440 of the IT Act, provides, *inter-alia*, procedure of granting waiver/immunity by the Assessing Officer from imposition of penalty under Section 439 and prosecution under Section 478 or 479, in the cases of under-reporting of income.
- Sub-section (1) to (4) of Section 440 is proposed to be amended so as to extend the scope of immunity to such cases where penalty is imposed for under-reporting of income in consequence of misreporting, upon fulfilment of the following conditions:
  - the tax and interest payable as per the order of assessment or reassessment, has been paid within the period specified in the notice of demand;
  - Where penalty is levied under the circumstances referred to in Section 439(11)(a) to (f), the taxpayer is required to pay an additional income-tax to the extent of 100% of the amount of tax payable on such under-reported income in lieu of the penalty;
  - Where penalty is levied under the circumstances referred to in Section 439(11)(g) [unexplained credits, unexplained investments, unexplained assets etc.], the taxpayer is required to pay an additional income-tax to the extent of 120% of the amount of tax payable on such under-reported income in lieu of the penalty;
  - No appeal is filed against the order of assessment or re-assessment and levy of penalty referred above.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Omission of Sections 446, 447 and 454(1) - Rationalization of penalties into fees

- The following penalties are proposed to be converted into mandatory graded fees under Section 428 of the IT Act:
  - ***Penalty under Section 446:*** The penalty for failure to get accounts audited is converted into a graded fee of INR 75,000 or INR 150,000, depending on the duration of the delay.
  - ***Penalty under Section 447:*** The penalty for failure to furnish an accountant's report for international or specified domestic transactions (Section 172) is replaced with a graded fee of INR 50,000 to INR 100,000.
  - ***Penalty under Section 454(1):*** The penalty for failure to furnish a Statement of Financial Transactions or reportable accounts is converted into a fee under Section 427(3) of INR 200 for every day for which such failure continues, with an upper limit of INR 1,00,000.

ELP COMMENTS:

The transition from "penalty" to "fee" eliminates the Department's discretion while imposition of penalties in case of minor infractions, thereby reducing litigation and providing greater certainty to assessees.

Increase in amount of penalty imposed under Section 466 of the IT Act

- Section 466 of the IT Act provides for a penalty if any person fails to comply with the provision of Section 254 and does not furnish the requisite information to the authorized income-tax authorities. The section further gives power to Joint Commissioner, Deputy Director or Assistant Director or the Assessing officer to impose maximum penalty amounting to INR 1,000.
- Section 466 is proposed to be amended so as to enhance the maximum amount of penalty to INR 25,000 from existing INR 1,000.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

The increased penalty has been proposed to create adequate deterrence and voluntary compliances by the taxpayers.

Statutory requirement of issuance of a Show Cause Notice under Section 471 of the IT Act

- Section 471 of the IT Act provides that no order imposing a penalty under Chapter XXI shall be made unless the assessee has been heard or has been given a reasonable opportunity of being heard.
- Section 471 of the IT Act is proposed to be amended to mandate issuance of a show cause notice before passing any order imposing a penalty under Chapter XXI.
- Further, it has been proposed that penalty leviable under Section 439 shall be a part of the draft assessment (Section 275 of the IT Act) or assessment (Section 270 of the IT Act) or reassessment (Section 279 of the IT Act) itself and no separate penalty order would be passed in such cases.

Rationalization of Prosecution provisions

- The IT Act prescribed stringent prosecution provisions for various offenses committed by the assessees. To decriminalize some of the offences and to make punishment for the offences proportionate to the crimes, several amendments have been proposed to these provisions.
- Effective April 1, 2026, the nature of imprisonment for several offenses (Sections 473-485 and 494 of the IT Act) will shift from rigorous to simple. Further, in cases where the tax amount involved is less than INR 1 million, punishment in the form of only fine is proposed. Maximum sentences are also being capped at 2 years for first-time offences and 3 years for the subsequent offences. The key proposed changes are tabulated below:

Section	Nature of Offense	Existing punishment	Proposed punishment
473	Contravention of search/seizure orders	Rigorous imprisonment up to 2 years and fine	Simple imprisonment up to 2 years and fine

474	Not providing facilities to inspect documents	Rigorous imprisonment up to 2 years and fine	Simple Imprisonment up to 6 months and/or fine
475	Removal/transfer/ Concealment of property to prevent recovery	Rigorous imprisonment up to 2 years and fine	Simple Imprisonment up to 2 years and fine
476	Failure to pay tax deducted at source to credit of Central Government under Chapter XIX-B. Failure to pay or ensure payment of tax to the credit of the government in respect of: ▪ income by way of winnings from online games as referred in Section 393(3) ▪ sum by way of consideration for transfer of a virtual digital asset as referred in Section 393(1).	Rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine.	**Where tax amount is:** ▪ Upto INR 1 million: Only fine ▪ INR 1 million and INR 5 million: Simple imprisonment for a term up to six months, or with fine, or with both. ▪ Exceeds INR 5 million: Simple imprisonment for a term up to two years, or with fine, or with both.
477	Failure to pay tax collected at source	Rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine	Where the tax amount is: ▪ Upto INR 1 million – Only fine ▪ INR 1 million to INR 5 million – Simple imprisonment for a term upto 6 months and/or fine ▪ Exceeds INR 5 Million - Simple imprisonment for a term upto 2 years and/or fine
478	Wilful attempt to evade tax or penalty	Rigorous imprisonment for a term which shall not be less than three months but which	Where the tax amount is: ▪ Upto INR 1 million – Only fine

		may extend to seven years, and with fine	▪ INR 1 million to INR 5 million – Simple imprisonment for a term upto 6 months and/or fine ▪ Exceeds INR 5 Million - Simple imprisonment for a term upto 2 years and/or fine
479	Failure to furnish return by issuance of service of Notice or otherwise	Rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine	Where the tax amount is: ▪ Upto INR 1 million – Only fine ▪ INR 1 million to INR 5 million – Simple imprisonment for a term upto 6 months and/or fine ▪ Exceeds INR 5 Million - Simple imprisonment for a term upto 2 years and/or fine
480	Failure to furnish return in search cases	Imprisonment for a term which shall not be less than three months but which may extend to three years and with fine	Where the tax amount is: ▪ Upto INR 1 million – Only fine ▪ INR 1 million to INR 5 million – Simple imprisonment for a term upto 6 months and/or fine ▪ Exceeds INR 5 Million - Simple imprisonment for a term upto 2 years and/or fine
481	Failure to produce accounts and documents	Rigorous imprisonment for a term which may extend to one year and with fine.	In the case where a person wilfully fails to comply with a direction issued to him under Section 268(5) i.e., to gets accounts audited or inventory valuation to be done from a cost accountant - Simple imprisonment for a term up to six months, or with fine, or with both.
482	False statement in verification, etc.	Rigorous imprisonment based on amount	Where the tax amount is: ▪ Upto INR 1 million – Only fine ▪ INR 1 million to INR 5 million – Simple imprisonment for a term upto 6 months and/or fine ▪ Exceeds INR 5 Million - Simple imprisonment for a term upto 2 years and/or fine

483	Falsification of books of account or document, etc.	Rigorous imprisonment for three months may extend to two years and with fine.	Simple imprisonment for a term up to two years and fine
484	Abatement of false return	Where the amount of tax, penalty or interest is: ▪ Upto INR 2.5 million – Rigorous imprisonment for three months which may extend to two years, and with fine ▪ Exceeds INR 2.5 Million - Rigorous imprisonment for six months but which may extend to seven years, and with fine	Where the amount of tax penalty or interest is: ▪ Upto INR 5 million – Simple imprisonment for upto six months or with fine, or with both ▪ Exceeds INR 5 Million - Simple imprisonment for a term up to two years, or with fine, or with both
485	Second and subsequent offenses	Rigorous imprisonment for a term not less than six months which may extend to seven years, and fine	Simple imprisonment for not less than six months but which may extend to three years and fine
494	Disclosure of particulars by public servants	Imprisonment which may extend to six months and fine.	Simple imprisonment up to one month, or with fine, or with both

ELP COMMENTS:

The proposed rationalization of the prosecution provisions under the IT Act has been made in pursuance of the recommendations of NITI Aayog's Consultative Group on Tax Policy (Consultative Paper published in October 2025) to transition from coercive compliance to trust-based governance. For some of the offences, mandatory imprisonment has been removed, enabling the judiciary to exercise its discretion based on facts of individual case.

Corresponding changes to IT Act, 1961 qua Penalty and Prosecution

- Similar amendments are proposed in the corresponding provisions of IT Act, 1961 in relation to penalty and prosecution.
- However, in Section 270A of the IT Act, 1961, which is the *pari materia* to Section 439 of the IT Act, no amendment has been proposed in relation to coverage of cases under sub-section (9) concerning mis-reporting of income, where the tax on income is determined by the Assessing Officer on income referred to in Section 68 to Section 69D (cash credits, unexplained investments, unexplained money, amount of investment not fully disclosed in books of account, unexplained expenditure, amount borrowed or repaid on hundi).

RATIONALIZING COMPLIANCES

Amendment to Section 220 of the IT Act,1961

- Section 220 of the IT Act, 1961 provides for the collection and recovery of tax payable, when the assessee is deemed in default. Sub-clause (2) of Section 220 contemplates the payment of interest on a notice of demand (which includes penalty) issued under Section 156 of the IT Act, 1961 pursuant to an order passed.
- The said section of the IT Act, 1961 is proposed to be amended w.e.f. March 1, 2026 to eliminate any interest liability on penalty demanded under Section 270 of the IT Act, 1961 on any person who has under-reported or misreported their income. Therefore, such person shall not have to pay interest on penalty upto the:
  - Date of passing of an Order by the Joint Commissioner (Appeals) or the Commissioner (Appeals) in an appeal;
  - Date of passing of an Order by the ITAT, where the assessment of re-assessment has been done in pursuance to the directions of the DRP.

Insertion of Section 234-I to the IT Act, 1961

- With a view to promoting voluntary compliance, the Finance Bill proposes to insert Section 234-I to permit furnishing of a revised return of income under Section 139 of the IT Act, 1961 beyond the existing time limit of 9 months, but up to 12 months from the end of the relevant AY, subject to payment of an additional fee.
  - INR 1000, where income does not exceed INR 0.5 million, or
  - INR 5000, in all other cases.

Amendment to Section 263 of the IT Act (Return of Income Framework)

- Section 263 of the IT Act lays down the comprehensive framework for filing of return of income, including the class of persons required to file returns, the applicable due dates, and the types of returns that may be furnished (original, belated, revised and updated). The Finance Bill proposes a set of compliance-oriented amendments to Section 263, as summarised below:
  - Rationalization of due dates (Section 263(1)(c))- Section 263(1)(c) defines the “due date” for filing return of income by different classes of assessees. In order to provide additional time to taxpayers engaged in business or profession whose accounts are not required to be audited under the IT Act (or any other law), as well as partners of non-audit firms (and specified spouses where Section 10 applies) as well as certain non-audit trusts, the Finance Bill proposes to rationalise the due dates by substituting the existing Table under Section 263(1)(c). Accordingly, the due date for filing return of income for such non-audit business taxpayers and specified partners/spouses is proposed to be extended from July 31 to August 31, while the due dates for all other categories of taxpayers remain unchanged.
  - Extension of time limit for filing revised return (Section 263(5))- The time limit for furnishing a revised return is proposed to be extended from nine months to twelve months from the end of the relevant Tax Year. Revised returns filed beyond nine months would attract a fee under Section 428(b) (with a corresponding fee proposed under Section 234I in the IT Act 1961.

- Expanded scope of updated return for reduction of loss (Section 263(6)(b))- The scope of filing an updated return is proposed to be expanded to permit updation even where the taxpayer reduces the amount of loss originally claimed, even if the revised return continues to reflect a loss.
- Permitting updated return pursuant to reassessment notice (Section 263(6)(c))- An exception is proposed to allow filing of an updated return in response to a reassessment notice issued under Section 280, subject to payment of an additional 10% levy and with a corresponding penalty carve-out under Section 439.
- Similar amendments are also proposed in the IT Act 1961 to align the due date structure for AY 2026–27, which are proposed to take effect from March 1, 2026.
- As regards the IT Act, the amendment is proposed to take effect from April 1, 2026 and would apply for Tax Year 2026-27 and thereafter.

ELP COMMENTS:

Collectively, these amendments reflect a clear policy thrust towards strengthening voluntary compliance by providing taxpayers with greater procedural flexibility in return filing, revision, and updation. The proposals ease genuine compliance constraints through extended timelines, expand avenues for self-correction (including loss adjustments), and introduce a structured mechanism for resolution even post-reassessment trigger, albeit with higher tax cost. Overall, the changes seek to balance taxpayer facilitation with revenue safeguards, while reducing avoidable disputes arising from rigid timelines and limited correction windows.

Amendment to Section 266 of the IT Act (Self-Assessment)

- Section 266 of the IT Act sets out the self-assessment mechanism requiring an assessee to discharge the tax, interest and fee payable on the basis of the return of income before furnishing such return, after giving credit for specified pre-paid taxes, reliefs and tax credits.
- Clause 58 proposes to make consequential amendments to Section 266 to align the self-assessment provisions with the changes proposed in the MAT regime, by substituting references to Section 206(1)(m) to (p) with references to Section 206(3) and (4).
- The amendment is proposed to take effect from April 1, 2026, and would apply for Tax Year 2026–27 and thereafter.

Amendments to Section 267 of the IT Act (Tax on Updated Return)

- Section 267 prescribes the framework for computation and payment of tax, interest, fee and additional income-tax where an assessee furnishes an updated return under section 263(6), including the manner of giving credit for pre-paid taxes, reliefs and tax credits.
- Alignment of tax credit set-off references
  - Section 267(2)(f), 267(4)(e) and 267(7)(a)(v) presently refer to tax credit claimed to be set off as per sections 206(1)(m) to (p) and 206(2)(e) to (h).

- Vide the proposed amendment, these references are proposed to be substituted with sections 206(2)(e) to (h) and 206(3) and (4).
- Accordingly, the scope of tax credits that may be considered while computing the net tax payable on an updated return [sub-sections (2) and (4)], and, the assessed tax for interest computation [sub-section (7)], will now be governed by the updated cross-references under section 206.

- Enhancement of additional Income tax in case of updated return filed pursuant to notice of reassessment
  - Section 267(5) prescribes the graded additional Income tax payable (25%, 50%, 60% and 70% of the aggregate of tax and interest) depending on the time elapsed from the end of the financial year succeeding the relevant Tax Year.
  - Vide the proposed amendment, a new sub-clause is introduced to provide that where an updated return is filed in pursuance of a notice issued under section 280, within the period specified in such notice, the additional income-tax payable shall be increased by a further 10% of the aggregate of tax and interest payable.
  - Consequentially, where such enhanced additional income-tax is paid, the income disclosed in the updated return shall not form the basis for imposition of penalty under section 439.
  - The amendment is proposed to take effect from April 1, 2026 and would apply for Tax Year 2026–27 and thereafter.
  - Similar amendment has been made under section 140B of the IT Act, 1961 with retrospective effect from March 1, 2026.

ELP COMMENTS:

Collectively, the amendments to Section 267 are technical and consequential, ensuring internal consistency with the revised tax credit framework under Section 206 through updated statutory cross-references for computation of tax, interest and assessed tax on updated returns. At the same time, the enhanced additional levy for updated returns filed pursuant to a reassessment notice reflects a calibrated policy approach, permitting taxpayers to regularise their position even after reassessment has been initiated, while imposing a higher additional tax cost to safeguard revenue interests. The associated penalty carve-out on income so disclosed further incentivises complete and timely disclosure, with the potential to reduce prolonged litigation and administrative burden.

Amendments to Section 270 of the IT Act

- Section 270 provides the framework for processing of returns and assessment, including prima facie adjustments at the return processing stage.
- Section 270(1)(a)(vi) presently provides for disallowance of deductions claimed under Section 144 or under the provisions of Chapter VIII-C where the return is furnished beyond the due date.

- Clause 60 proposes to omit the reference to Section 144, thereby confining such prima facie disallowance on belated returns only to deductions claimed under Chapter VIII-C.
- The amendment is proposed to take effect from April 1, 2026 and would apply for Tax Year 2026–27 and thereafter.

ELP COMMENTS:

This is a technical and clarificatory amendment narrowing the scope of automatic disallowances that may be made at the processing stage. By removing the reference to Section 144, the provision limits prima facie adjustments for belated returns to Chapter VIII-C deductions, reducing the likelihood of mechanical disallowances and ensuring that issues relating to Section 144, if relevant, are addressed through the regular assessment process.

Amendment to prosecution provision under Black Money Act

- Sections 49 and 50 of the Black Money Act, provides for penal and prosecution measures, including rigorous imprisonment and fine, where a resident wilfully fails to furnish a return of income or wilfully omits to disclose foreign assets or income in the return of income.
- It is proposed to amend to Sections 49 and 50 of the Black Money Act, with retrospective effect from October 1, 2024 to exclude prosecution for minor and inadvertent non-disclosure of foreign assets, other than immovable property, where the aggregate value does not exceed INR 2 million.

TDS, TCS AND INFORMATION ARCHITECTURE

Amendment pertaining to deduction of tax at source - Section 393

- Section 393 of the IT Act deals with tax to be deducted at source **(TDS)**, which is proposed to be amended as follows:
  - ***TDS on sale of immovable property***
    - Section 393(1) provides for deduction of tax at source **(TDS)** on sale of immovable property. Note 3 to this section is intended to prescribe that TDS shall be deducted where the sale consideration or the stamp duty value of the property is equal to or greater than 5 million rupees. However, due to an apparent drafting error, Note 3 presently refers to [Table Sr. No. 3(iii)] (relating to compulsory acquisition) instead of correctly referring to [Table Sr. No. 3(i)] (sale of immovable property), thereby creating an inconsistency between the substantive provision and the cross-reference in the Note.
    - To rectify this referencing error and accurately reflect the legislative intent, it is proposed to amend Note 3 of section 393(1) of the Act so that it correctly refers to the appropriate table entry for the sale of immovable property. This is a clarificatory and technical amendment intended solely to correct the cross-reference and avoid interpretational disputes. The amendment is proposed to take effect from April 1, 2026.

- ***TDS on the supply of manpower services covered within the definition of "work"***
    - Section 393(1) of the IT Act governs TDS on payments to contractors and on professional/technical fees, and has long given rise to classification disputes where "manpower supply" services were in issue specifically, whether such payments should be treated as contractual "work" (attracting TDS at 2% under Section 393(1) [Table: Sl. No. 6(i)] / erstwhile Section 194C) or as professional/technical services (potentially attracting higher TDS).
    - Assessing Officers frequently treated manpower supply as professional/technical services under Section 194J of the IT Act, leading to additions and demands, which were then challenged before the ITAT and High Courts. The higher appellate authorities have consistently held that manpower supply services are in the nature of a works contract covered by the definition of "work" provided under Section 402(47) and not professional/technical services, and therefore subject to 2% TDS under Section 393(1) [Table: Sl. No. 6(i)] (erstwhile Section 194C), including in DCIT **(TDS)**, Vijayawada v. Dalmia Cement (Bharat) Ltd., 70 taxmann.com 221 (Visakhapatnam - Trib.) and PCIT v. Bharat Heavy Electricals Ltd., 77 taxmann.com 269 (P&H).
    - The Finance Bill has proposed an amendment to the definition "work" provided in Section 402(47), expressly including "supply of manpower" within the definition of "work", thereby providing statutory clarity that such payments fall under Section 393(1) for TDS at 2% and significantly reducing the scope for future litigation.
- ***Exemption of TDS on interest paid to co-operative societies engaged in the banking business***
    - Section 393(4) of the IT Act prescribes circumstances where tax is not required to be deducted at source. To align the provisions of the IT Act with the corresponding provisions under the IT Act, 1961, an amendment has been proposed to Section 393(4) [Table, Sl. No. 7, Column C(a)(i)] of the IT Act.
    - Pursuant to the proposed amendment, no tax shall be deducted at source on interest income (other than interest on securities) credited or paid to a co-operative society engaged in the business of banking, including a co-operative land mortgage bank.
- ***Exemption of TDS on interest on delayed compensation awarded by the Motor Vehicle Accidents Claims Tribunal***
    - Section 11 of the Income-tax Act, 2025, exempts the income of specified persons listed in Schedule III, subject to prescribed conditions. The Finance Bill, proposed to amend Schedule III to also exempt, in the hands of an individual or his legal heir, any income in the nature of interest awarded under the Motor Vehicles Act, 1988 by the Motor Accident Claims Tribunal on compensation for death, permanent disability or bodily injury, with a view to alleviating the financial hardship of accident victims and their families.

- Section 393(4) of the IT Act presently exempts from TDS interest on compensation awarded by the Motor Accidents Claims Tribunal only where the aggregate interest does not exceed ₹50,000 during the Tax Year.
- Since interest income is proposed to be exempted under Section 11 read with Schedule III, the Finance Bill, now proposed, with a view to providing relief and alleviating hardship caused by accidents, that there shall not be requirement of deducting tax at source on such interest when the compensation is awarded to an individual, without any monetary limit.
- This amendment will take effect from April 1, 2026.

- ***Enabling the filing of declaration for no deduction to a depository***
  - Section 393(6) of the IT Act contemplates that tax deduction is not required under the specified provisions where the eligible person furnishes a prescribed written declaration to the person responsible stating that the tax on their estimated total income for the relevant Tax Year is nil. [Table, Column C of the IT Act].
  - Under the current procedure, investors earning income from multiple units and securities need to submit separate forms to all entities. Section 393(6)(b) is now proposed to be inserted, wherein a single written declaration may also be furnished electronically to a depository, in the following cases:
    - Where the income is from units/interest on securities/dividends, as referred to in Section 393(1) of the IT Act, or
    - Where such units/securities are held with such depository, or
    - Where such securities are listed on a recognized stock exchange.
  - The depository shall in turn provide such written declaration to the person responsible for paying such income.
  - The said amendment is w.e.f. April 1, 2027.

- ***Relaxation of the timeline for furnishing the declaration***
  - Currently, Section 393(7) of the IT Act prescribes that the person responsible for paying any income or sum shall furnish the declaration referred to in Section 393(6) to the Principal Chief Commissioner / Chief Commissioner / Principal Commissioner / Commissioner, by the 7th of the month following the month in which the declaration is furnished to him.
  - The said section is proposed to be amended to relax the time period to the 7th of the month following the quarter in which the declaration under Section 393(6) is furnished to him.

Rationalization of TCS provisions - Amendment to Section 394

- Section 394 of the IT Act provides for the collection of tax at source on specified receipts at rates prescribed in the Table under sub-section (1).

- With a view to rationalising and harmonising TCS rates, the Finance Bill proposes to amend the rates of TCS to provide uniform rates wherever possible. The summary of changes in TCS rates are as under:

S. No.	Nature of Receipt	Current rates	Proposed rates
1.	Sale of alcoholic liquor for human consumption	1%	2%
2.	Sale of tendu leaves	5%	2%
3.	Sale of scrap	1%	2%
4.	Sale of minerals, being coal or lignite or iron ore	1%	2%
5.	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding INR 1 million	▪ 5% for purposes of education or medical treatment; ▪ 20% for purposes other than education or medical treatment.	▪ 2% for purposes of education or medical treatment; ▪ 20% for purposes other than education or medical treatment
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.	▪ 5% of amount or aggregate of amounts up to 1 million rupees; ▪ 20% of amount or aggregate of amounts exceeding 1 million rupees.	2%

- The rates of TCS for the following transaction shall remain unchanged:
  - Sale of timber, whether obtained under a forest lease or otherwise; or any other forest produce (other than timber or tendu leaves) obtained under a forest lease,
  - Sale consideration exceeding 1 million for motor vehicles or any other goods as may be notified, and
  - Use of parking lot or toll plaza or mine or quarry for the purpose of business (excluding mining and quarrying of mineral oil).

ELP COMMENTS:

The proposed rationalization of TCS rates under section 394(1) (amending section 206C) is broadly aligned with the Government's objective of simplification and partial relief, but certain elements may warrant reconsideration or clearer articulation. From a policy perspective, TCS is essentially a tracking and advance-tax mechanism, not a substantive levy, so rate design should balance information needs with working-capital and compliance costs. While the reduction from 5% to 2% on tendu leaves is welcome relief for a largely unorganized sector and likely to support formalization, and the reduction from 5% to 2% on LRS remittances for education/medical purposes and

on overseas tour packages addresses cash-flow concerns and competitive distortions for domestic operators, the across-the-board movement to 2% in other categories appears more revenue-augmenting than rationalizing.

In particular, increasing TCS on alcoholic liquor, scrap and specified minerals from 1% to 2% will have a non-trivial cash-flow impact in sectors that are already heavily taxed and/or regulated, with limited incremental information value where transactions are through licensed or GST-registered counterparties.

In scrap and minerals, given the breadth of definitions and past disputes, higher rates may heighten litigation unless accompanied by clearer guidance or risk-based differentiation (for example, retaining 1% where both parties are registered and compliant, and applying 2% in high-risk cases or where PAN is not furnished).

Further, removal of the threshold and a flat 2% TCS on overseas tour packages may be justified from an anti-avoidance and level-playing-field perspective, but it will now apply even to relatively small-ticket travel, this underscores the need for robust, user-friendly systems and quick credit/refund processes to ensure that TCS remains a compliance tool rather than a frictional cost.

Enabling an alternative route for the small taxpayers to obtain a lower rate or no deduction of income tax - Amendment to Section 395

- Section 395 of the IT Act provides for issuance of certificates by the Assessing Officer permitting deduction or collection of tax at source at a nil or lower rate, subject to satisfaction of the Assessing Officer.
- Under the existing provisions, the payee is required to make an application before the Assessing Officer, and such certificate is issued after due verification.
- With a view to ease the compliance burden of small taxpayers, the Finance Bill, proposes to insert sub-section (6) in Section 395 to provide an optional electronic mechanism for filing applications for obtaining lower or nil deduction of tax certificate.
- Under the proposed framework, the payee may file an application electronically before the prescribed income-tax authority, which may issue the certificate electronically, subject to the fulfillment of prescribed conditions, or reject the application if such conditions are not fulfilled or the application is incomplete. Relevant rules in this regard will be notified separately by the Central Government.
- Consequential amendments have been made to recognize certificates issued through the electronic mechanism. The amendment shall take effect from April 1, 2026.

ELP COMMENTS:

The amendment is a targeted compliance-relief measure introduced for small taxpayers as an alternative to the existing manual process for obtaining nil or lower TDS certificates. By reducing physical interface and enabling faster verification and issuance, the change is expected to enhance ease of compliance without diluting the substantive safeguards governing grant of such certificates.

Removal of requirement of obtaining TAN for deducting TDS by a non-resident Individual for purchase of immovable property - Amendment to Section 397

- Section 397(1)(a) of the IT Act requires every person deducting or collecting tax to apply for allotment of a Tax Deduction and Collection Account Number **(TAN)**, subject to the exceptions provided under Section 397(1)(c).
- Presently, a buyer of immovable property is not required to obtain a TAN where tax is deducted under Section 393 of the IT Act in respect of a purchase from a resident seller. However, where the seller is a non-resident, the buyer is required to obtain a TAN for deducting tax at source, even if the transaction is a one-time transaction.
- The Finance Bill proposes to amend Section 397(1)(c) w.e.f. October 1, 2026 to provide that a resident individual or Hindu undivided family shall not be required to obtain TAN for deduction of tax at source in respect of consideration paid on transfer of immovable property under Section 393(2) [Table Sl. No. 17], even where the seller is a non-resident. Going forward, such buyers shall fulfill withholding tax obligations by quoting their PAN before making payments to such non-resident sellers.

ELP COMMENTS:

The amendment provides targeted compliance relief to resident individuals and HUFs undertaking one-off purchases of immovable property from non-resident sellers. By dispensing with the requirement to obtain a TAN in such cases, the amendment reduces the procedural burden while retaining the substantive obligation to deduct tax at source. The amendment brings the compliance framework qua non-resident sellers in parity with the resident sellers in line with the objective of simplifying TDS compliance.

Amendment to Section 399

- Section 399 of the IT Act provides the procedure for processing statements of tax deducted at source and tax collected at source, including correction statements.
- Under the existing provisions, Sections 399(1)(c) and 399(1)(d) refer to Section 427 for computation and adjustment of fee payable for default in furnishing statements.
- The Finance Bill, proposes to amend Sections 399(1)(c) and 399(1)(d) to substitute the reference to "Section 427" with "**Section 427(1) & (2)**".
- This amendment is consequential to Clause 83 of the Finance Bill, which substitutes Section 427 to provide for fees not only for defaults relating to compliance and reporting under Section 397, but also for defaults under Section 508 (statement of financial transaction / reportable account reporting).

ELP COMMENTS:

The amendment seeks to confine the scope of fee computation and adjustment during processing of TDS and TCS statements strictly to fees levied under Section 427(1) and (2), which relate to defaults in furnishing TDS and TCS statements.

Guidelines issued by CBDT shall be binding on the income-tax authorities - Section 400

- Section 400 of the IT Act empowers the Central Government to relax provisions relating to collection and recovery of tax under Chapter XIX.
- Under Section 400(2), the Central Board of Direct Taxes **(CBDT)** is authorized to issue guidelines, with the previous approval of the Central Government, to remove difficulties in giving effect to the provisions of Chapter XIX, which are required to be laid before each House of Parliament.
- The Finance Bill proposes to amend Section 400(2) to further provide that such guidelines issued by the CBDT shall be binding on the income-tax authorities as well as on the person liable to deduct or collect tax.
- The amendment seeks to align the provision with the corresponding framework under the Income-tax Act, 1961.

ELP COMMENTS:

The amendment strengthens the legal status of guidelines issued under Section 400(2) of the IT Act by expressly making them binding on both tax authorities and taxpayers. This is expected to ensure uniform application of relaxations, reduce interpretational disputes and enhance certainty in matters relating to collection and recovery of tax, particularly where administrative difficulties arise.

Relaxation in the levy of interest on penalty - Amendment to Section 411 of the IT Act

- Section 411 of the IT Act lays down the framework for payment of tax pursuant to a notice of demand issued under Section 289 and provides for the levy of interest in case of delayed payment.
- Under Section 411(3), simple interest at the rate of 1% per month or part thereof is levied on any amount specified in the notice of demand which remains unpaid beyond the prescribed period.
- The Finance Bill, proposes to amend Section 411(3) to provide that interest shall not be charged on penalty levied under Section 439 up to the date of passing of the appellate order, being:
  - an order under Section 359 passed by the Joint Commissioner (Appeals) or Commissioner (Appeals); or
  - an order under Section 363 passed by the Appellate Tribunal, where the assessment or reassessment is made pursuant to directions of the DRP.
- The amendment shall take effect from April 1, 2026.

ELP COMMENTS:

The amendment recognizes that penalties under Section 439 are punitive in nature and often remain subject to appellate scrutiny. By suspending the levy of interest on such penalties until disposal by the first or second appellate authority, the provision seeks to prevent compounding of financial burden during pendency of appeals.

Consequential amendment to align the provisions of MAT credit and carried forward and set-off of losses - Sections 423, 424, and 425 of the IT Act

- Sections 423, 424, and 425 of the IT Act respectively provide for the levy of interest for default in furnishing return of income, default in payment of advance tax, and deferment of advance tax.
- It is proposed to substitute the references in sections 423(4)(d)(vii), 424(2)(f) and 425(5)(f) to align the interest computation provisions with the restructured minimum alternate tax credit provisions under Section 206.
- Accordingly, the expression "any tax credit allowed to be set off as per sections 206(2)(e) to (h) and 206(3) and (4)" is proposed to be substituted in place of the existing reference to sections 206(1)(m) to (p) and 206(2)(e) to (h).
- This substitution is consequential to the proposed omission of Sections 206(1)(m) to (p) under Section 50 of the Finance Bill, which presently governs the credit and set-off of minimum alternate tax paid in excess of tax payable.
- These amendments are effective from April 1, 2026.

ELP COMMENTS:

The amendment relating to the computation of tax paid for the purpose of levy of interest seeks to give effect to the restructured minimum alternate tax credit framework under section 206 of the IT Act. With effect from 1 April 2026, the facility of carry forward and set-off of minimum alternate tax shall no longer be available to companies paying tax under the old regime, while Section 206(3) proposes to extend the benefit of minimum alternate tax credit of 25% to domestic companies opting for the concessional tax regime, which were earlier ineligible for such credit. Foreign companies shall continue to be governed by the existing minimum alternate tax credit mechanism without any substantive change.

Levy of fees for delayed filing of statement of financial transaction - Section 427 of the IT Act

- It is proposed to amend Section 427 of the IT Act which provides for levy of a fee for default in furnishing statements under Section 397(3)(b). Where any person fails to furnish such statement within the time prescribed under the rules, a fee of INR 200 per day shall be leviable for the period of default, subject to a cap equal to the amount of tax deductible or collectible, and payable before furnishing the statement.
- In addition, to the existing levy, a fee is proposed to be levied for failure to furnish a statement of financial transaction or reportable account as required under Section 508(1), which mandates specified persons responsible for registering or maintaining records of specified financial transactions or reportable accounts to furnish such statements to the prescribed authority, within the time prescribed under Section 508(2). In respect of failure to furnish a statement of financial transaction or reportable account under Section 508(1), read with Section 508(2), the fee shall be levied at INR 200 per day of default, subject to an overall cap of INR 100,000.
- This amendment will take effect from April 1, 2026 and shall apply for Tax Year 2026-27 and subsequent Tax Years.

Extended timeline for filing of revised and belated return of income - Section 428 of the IT Act

- Section 428 of the IT Act presently provides for levy of a fee where a person required to furnish a return of income under Section 263 fails to do so within the due date specified under Section 263(1), which deals with furnishing of income-tax return.
- It is proposed to substitute the existing Section 428 of the IT Act, which provides for the levy of a fee where a person required to furnish a return of income under Section 263 fails to do so within the due date specified under Section 263(1), which deals with the furnishing of an income-tax return. At present, the fee is capped at a sum not exceeding INR 1,000 where total income does not exceed INR 500,000, and INR 5,000 in any other case.
- In addition to the existing levy for failure of furnishing return of income under Section 263, fee is proposed to be levied on a person who:
    - Furnishes a revised return of income under Section 263(5) beyond nine months from the end of the relevant Tax Year, at INR 1,000 where total income does not exceed INR 500,000 and INR 5,000 in other cases;
    - Fails to get accounts audited and furnish the audit report as required under Section 63, which applies to persons carrying on business or profession and subject to tax audit, at INR 75,000 for a delay up to one month and INR 150,000 thereafter; and
    - Fails to furnish an accountant's report as required under Section 172, which applies to persons entering into an international transaction or specified domestic transaction, at INR 50,000 for a delay up to one month and INR 100,000 thereafter.
- The amendment is proposed to take effect from April 1, 2026.

Amendment to Section 262(10)(c) – Expansion of CBDT Rule-making power for quoting PAN

- Clause 56 of the Finance Bill proposes to amend Section 262(10)(c) of the IT Act, which empowers the CBDT to prescribe categories of documents in which PAN must be quoted.
- Under the existing provision, such rule-making power is limited to documents pertaining to business or profession. The proposed amendment substitutes the relevant wording to extend the scope to documents pertaining to business or profession, or other transactions, thereby enabling the CBDT to mandate PAN quoting even in respect of prescribed transactions not necessarily connected with business or professional activities.
- The amendment is proposed to take effect from April 1, 2026 and would apply for Tax Year 2026–27 and thereafter.

ELP COMMENTS:

The amendment aligns the IT Act with the broader PAN-quoting framework under the IT Act, 1961 and expands the regulatory reach of CBDT to prescribe PAN requirements across a wider range of transactions. This is expected

to strengthen transaction-level reporting and traceability beyond business contexts, thereby supporting revenue administration and compliance monitoring.

MISCELLANEOUS

Amendment to Section 2(32) of the IT Act

- Section 2(32) of the IT Act defines "co-operative society" to mean a co-operative society registered under the Co-operative Societies Act, 1912, or under any other law in force in any State or Union territory for the registration of co-operative societies.
- It is proposed to amend the said clause to include the co-operative societies registered under the "Multi-State Co-operative Societies Act, 2002", within the scope of the definition of the expression "co-operative society".

Widening the scope of deduction under Section 149 for co-operative societies

- Section 149(2)(b) of the IT Act provides for deduction of the whole of the profits and gains of business of a co-operative society engaged in making specified supplies of produces of its members to federal co-operative society or specified Government authorities or entities. The scope of this deduction is proposed to be widened to cover supplies of cattle feed and cotton seeds by such co-operative societies.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Deduction under new tax regime on dividend income of co-operative societies

- Section 203 of the IT Act is proposed to be amended to permit deduction under the new tax regime on dividends received by co-operative societies from other co-operative societies to the extent such dividends are distributed to their members. It is noteworthy that Section 149(2)(d) of the IT Act permits deduction on interest as well as dividend received from other co-operative societies under the old tax regime.
- This amendment is proposed to come into effect from April 1, 2026 and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Deductions on dividend received and distributed by federal co-operative

- Section 150 (optional tax regime) and 203 (default tax regime) of the IT Act are proposed to be amended to provide for deduction on dividend income received by notified federal co-operatives from its investment in any company till the Tax Year 2028-29. This deduction shall be available only in respect of dividend arising from investments recorded in the books of account on or before January 31, 2026 and to the extent it has been distributed to its members at least one month before the due date for filing the return of income.
- This amendment is proposed to come into effect from April 1, 2026 and accordingly would apply in relation to Tax Years from 2026-27 to 2028-29.

Amendment to Section 203 and Section 204 of the IT Act

- Section 203 provides for the new tax regime to resident co-operative societies, under which tax is levied at a concessional rate of 22%, subject to fulfilment of prescribed conditions. Section 204 provides for the new tax regime to certain new manufacturing co-operative societies.
- Section 149(2)(d) of the IT Act provides for deduction on the income of a co-operative society that is received as interest or dividend from any other co-operative society. The dividends received by a co-operative society from a company are taxed in the hands of the co-operative society.
- It is now proposed to allow deduction on dividends received by co-operative societies from other co-operative societies to the extent such dividends are distributed to its members.
- To provide effect to the above amendments, it is proposed to insert a new sub-section (7) to Section 203 of the IT Act (Tax on income of certain resident co-operative societies) and sub-section (5) to Section 204 of the IT Act (Tax on income of certain new manufacturing co-operative societies).
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

SPECIAL PROVISIONS FOR NON-PROFIT ORGANIZATIONS

Removal of certain funds from the requirement of registration as NPOs

- Section 332(1)(f) of IT Act is proposed to be amended to effectively absolve certain specified Prime Minister funds and Chief Minister funds from the requirement of registration as stipulated for NPOs; and align the position with IT Act, 1961.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Belated filing of returns by NPOs

- Section 349 of IT Act is proposed to be amended to enable belated filing of the returns for registered NPOs as per Section 263(4) of the IT Act. Similar mechanism is also available in the IT Act, 1961.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Exclusion from specified violations leading to cancellation of NPO registration

- Section 351(1)(b) of the IT Act is proposed to be amended to remove the contravention of Section 346 of the IT Act i.e., restriction of commercial activities by registered NPOs carrying out advancement of any other object of general public utility, from “specified violations”.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

ELP COMMENTS:

The contravention of Section 346 of the IT Act is, in any case, included under “other violations” listed in Section 353 of the IT Act. The inclusion of such violation under Section 351 as “specified violation” had the additional

consequence of cancellation of NPO registration, which was not the case under the IT Act, 1961. Thus, the proposed amendment seeks to align this position with the IT Act, 1961.

Taxation of accreted income in case of merger of NPO

- The relevant provisions of Section 352(4) of the IT Act are proposed to be amended to provide that the liability to pay tax on accreted income at MMR in case of merger will arise when the merger is with:
  - Any entity other than a registered NPO or;
  - A registered NPO having objects same or similar to it but the prescribed merger conditions are not fulfilled; or
  - A registered NPO that does not have same or similar objects.
- Section 354A is proposed to be introduced to further clarify non-applicability of MMR based taxation under Section 352 where a registered NPO merges with any other registered NPO having same or similar objects by fulfilling the prescribed conditions.
- This amendment is proposed to come into effect from April 1, 2026, and accordingly would apply in relation to Tax Year 2026-27 and thereafter.

Amendment to section 536 - Repeal and savings clause

- Section 536(2)(h) of the IT Act provides that where any deduction has been allowed or any amount has not been included in the total income under the IT Act, 1961, subject to fulfilment of certain conditions, then on violations of such conditions, such amount will be deemed to be income in the Tax Year in which violation takes place.
- However, there are provisions in the IT Act, 1961, where any deduction allowed or any income which has not been included in the total income under the IT Act, 1961 may have to be included as income as per the provisions of the IT Act, 1961 under the provisions of IT Act, even without violations of any conditions. Section 536(2)(h) presently does not cover these cases.
- Section 536(2)(h) is proposed to be amended to provide that where any sum has been allowed as deduction or has not been included in the total income under IT Act, 1961, such sum will be deemed to be income under IT Act, even without violations of any conditions, if it was to be included in the total income under the provisions of IT Act, 1961.

Amendment to Section 99 of the IT Act

- Section 99 of the IT Act is proposed to be amended to provide that, in sub-section (2), the words, brackets, figures and letters “sub-section (1)(a)(i) or (b)” shall be substituted with “sub-section (1)(a)(ii) or (b)”.
- Section 99(1)(a)(i) of the Act provides that income of individual to include income of spouse by way of salary, commission etc., from a concern in which the individual has a substantial interest.
- Section 99(1)(a)(ii) provides that income of individual to include income arising to the spouse from assets transferred.
- Section 99(2) deals with proportion of income to be included in the hands of individual where asset is transferred. However, in Section 99(2) inadvertently reference of Section 99(1)(a)(i) has been given instead of Section 99(1)(a)(ii). To correct the aforesaid referencing error, it is proposed to correct Section 99(2) to give correct reference of Section 99(1)(a)(ii).

- This amendment will take effect from April 1, 2026.

Amendment to Section 202 of the IT Act:

- Section 202 of the IT Act provides for the new tax regime applicable to individuals, HUF and certain other specified persons, under which tax is levied at concessional slab rates, subject to fulfilment of prescribed conditions.
- The section provides that, while computing total income under the new tax regime, various exemptions, deductions and set-offs are not available, including, inter alia, the deduction under Section 144 relating to special provisions for newly established Units in SEZ.
- Section 144 provides for deduction of profits and gains derived by eligible SEZ units, corresponding to the deduction earlier available under Section 10AA of the IT Act, subject to fulfilment of prescribed conditions.
- The amendment proposes to omit sub-clause (iii) of clause (a) of sub-section (2) of Section 202 of the IT Act, thereby removing the restriction on claiming deduction under Section 144 while computing total income under the new tax regime for individuals, HUF and others.
- As a result of the amendment, eligible assessees opting for the new tax regime would be able to avail deduction under Section 144, subject to fulfilment of the conditions prescribed therein.
- This amendment is proposed to come into effect from April 1, 2026.

ELP COMMENTS:

The proposed amended is intended to provide relief to assessees operating in SEZ and align the new tax regime with SEZ incentives.

FOREIGN ASSETS OF SMALL TAXPAYERS - DISCLOSURE SCHEME, 2026

Target Beneficiaries and Benefits

- FAST-DS 2026, proposed under the Finance Bill, is a time-bound facility enabling eligible resident individuals to regularise legacy and technical lapses in reporting foreign assets and foreign-sourced income under the IT Act, 1961.
- It permits a voluntary, one-time declaration of such previously undisclosed items without reopening multiple past AYs.

Scope and Eligibility

- For the purposes of FAST-DS 2026, an “assessee” means a resident individual (or an NR or RNOR, who was resident in the relevant TY), as defined under the IT Act, 1961, who holds or has held undisclosed foreign assets or has derived undisclosed foreign income that should have been reported but was not so disclosed in the relevant schedules of the ROI for the relevant period.
- FAST-DS 2026 is intended to benefit small taxpayers, with eligibility determined by the nature, source, and quantum of foreign assets and foreign-sourced income proposed to be disclosed.

- A declaration may be furnished for any TY in respect of assets or income where the declarant has failed to furnish a ROI, failed to disclose such asset or income in an ROI, or such asset or income has escaped assessment under the IT Act, 1961.

Payment and Final Order

- In respect of the declaration made under FAST-DS 2026, the declarant is required to make payment as under:

Sr. No.	Type of Asset/Income	Amount Payable
1	▪ Undisclosed foreign asset; or ▪ Undisclosed foreign income	Aggregate of – ▪ 30% of the value of the undisclosed foreign asset (as on March 31, 2026); ▪ 30% of undisclosed foreign income; and ▪ 100% of tax computed under (i) and (ii) above.
2	▪ Foreign asset acquired during non-resident period but not disclosed on becoming resident; or ▪ Foreign asset acquired from income already taxed but not disclosed in ROI.	Fee of INR 0.1 million

- On receipt of a declaration, the prescribed authority shall verify the particulars and determine the amount payable in accordance with FAST-DS 2026. This amount shall be communicated electronically to the assessee within 1 month from the end of the month of declaration.
- The assessee shall pay the communicated amount within 2 months from the end of the month in which such electronic communication is received. Failure to pay within this period, save as permitted for delayed payment with interest, may render the declaration ineffective.
- Subject to prescribed conditions, an assessee may pay the determined amount within an additional period not exceeding 2 months, together with simple interest at 1% per month or part thereof on the unpaid amount.
- Upon receipt of the prescribed amount and any applicable interest, and upon due intimation by the assessee, the competent authority shall issue an electronic order certifying payment under FAST-DS 2026. Such order shall be final and conclusive for the assets and income covered by the declaration.
- Any amount paid under FAST-DS 2026, including interest, shall be final and non-refundable.

Immunity from Penalty and Prosecution

- Upon timely payment of prescribed amounts, declarants receive limited immunity from further penalty and prosecution under the IT Act, 1961, and notified statutes, strictly for the assets and income disclosed under FAST-DS 2026.

- Cases involving proceeds of crime, matters under the Prevention of Money-laundering Act, 2002, or those already dealt with under the Black Money Act are excluded, preserving full enforcement against serious and wilful violations.

Miscellaneous

- The Central Government is empowered to prescribe detailed rules on valuation, eligibility conditions, procedure, and safeguards for effective implementation of FAST-DS 2026.

ELP COMMENTS:

The FAST-DS 2026 appears to be conceived as a narrowly focused compliance window rather than a broad-based amnesty. By limiting eligibility to resident individuals and excluding cases that are already the subject of proceedings under specialised statutes, the measure seems intended to address relatively straightforward instances of non-disclosure, while maintaining deterrence in respect of more serious violations.

For taxpayers with legacy foreign investments or technical reporting lapses, the framework may provide a practical mechanism for regularisation, without necessitating the re-opening of multiple AYs or giving rise to extensive disputes. However, the ultimate efficacy of the scheme will depend on the rules to be notified in relation to valuation methodology, monetary thresholds, documentation requirements, and timelines. These will need to be sufficiently clear and workable to provide certainty to taxpayers and to facilitate consistent implementation by the revenue authorities. In addition, the prescribed strict timelines should ensure that declarations made under the scheme are disposed of expeditiously.

Without prejudice to the foregoing, the validity of amnesty schemes has previously been challenged on the ground that they are detrimental to, and contrary to the interests of, honest taxpayers as compared with assessees who have evaded tax or otherwise failed to comply with the law. In this context, it is pertinent to note that the Supreme Court, in All India Federation of Tax Practitioners v. Union of India [1998 (231) ITR (24)], while considering such a challenge, dismissed the petition, thereby affirming the general maintainability and validity of amnesty schemes.

INDIRECT TAX

GST LEGISLATIVE CHANGES

Simultaneous amendment to Section 15(3) and Section 34(1) of the CGST Act - Provisions pertaining to "Post Sales Discounts"

- Section 15(3)(b) has been proposed to be substituted, removing the condition of a prior agreement. Therefore, for claiming deduction of post-supply discounts from the value of taxable supply, the only requirement now is that a credit note should be issued under Section 34 of the CGST Act, and the recipient should have reversed the corresponding input tax credit.
- Simultaneously, a corresponding amendment is proposed in Section 34(1), inserting a specific reference to discounts covered under the substituted Section 15(3)(b). Therefore, discounts have been expressly included as one of the scenarios in which a credit note may be issued.

ELP COMMENTS:

The amendment seeks to address the long-pending grievance of businesses, specifically in FMCG, pharmaceuticals, automobiles, and retail sectors, as the condition of a 'prior agreement' for establishing a post-sales discount has been onerous and has led to unwarranted tax demands and litigation. In fact, this long-standing grievance was recognized by the GST Council, and the amendment was specifically recommended in its 56th Meeting.

The proposed amendment is a welcome step and intended to ease compliance and reduce unwarranted disputes. However, it remains to be seen how the other condition (*viz.*, the reversal of ITC by the receipt) is being implemented. In the past, the said condition has also led to disputes, in the absence of a proper mechanism for suppliers to monitor or verify such reversals.

It would have been wise if a specific clause/proviso had also been introduced in section 15(3)(b), clarifying that verification of ITC reversal has to be undertaken at the end of the recipient. Such a clause would further be in line with the settled principle in law that one party cannot be made to bear the consequences of non-compliance by another. [Refer: *Lex Non Cogit Ad Impossibilia - Maliakkal Industrial Enterprises v. Union of India [2013 (290) E.L.T. 330 (Ker.)* and *On Quest Merchandising Ltd. v. Govt. of NCT of Delhi & Ors. [2017 (10) TMI 1020 – Delhi High Court]*, affirmed by the Hon'ble Supreme Court in *Commissioner of Trade & Taxes, Delhi v. Arise India Ltd. [2022 (60) G.S.T.L. 215 (S.C.)]* and reiterated in *Commissioner of Trade Tax Delhi v. Shanti Kiran India (P) Ltd. [C.A. No. 2042-47/2015]*]

Amendment to Section 54 of the CGST Act- "Refund of Tax"

- Section 54(6) is proposed to be amended by inserting a reference to refunds of unutilized input tax credit under Clause (ii) of the first proviso to Section 54(3) (inverted duty structure cases). Consequently, the facility of provisional refund (up to 90% of the claimed amount) is now extended to refund claims arising from inverted duty structure.
- Section 54(14) has been proposed to be amended to exclude refunds on exports of goods with payment of tax from the applicability of the minimum threshold requirement of INR 1,000. Accordingly, no minimum threshold shall apply to such refund claims.

ELP COMMENTS:

These amendments continue the focus on addressing challenges faced by small and medium-scale manufacturers and exporters. Currently, Section 54(6) allows provisional refunds only *qua* zero-rated supplies. Refund claims arising from an inverted duty structure are subject to processing after full verification, often resulting in significant delays. This led to blockage of working capital, particularly impacting MSMEs operating under inverted duty structures due to higher GST rates on inputs *vis-à-vis* outputs.

The proposed extension of provisional refunds to cases under the inverted duty structure is expected to improve liquidity for affected businesses. The implementation of this measure should provide timely relief amid ongoing global supply chain volatilities and cost pressures.

Section 54(14) prescribes a minimum threshold of INR 1,000 for refund claims. This threshold disproportionately affects small and micro exporters, particularly those dealing in low-value consignments, as claims below the threshold were ineligible.

The proposed amendment by removing the minimum threshold for refunds *qua* exports of goods with payment of tax shall provide targeted relief to small exporters usually making exports through courier, postal mode etc.

Insertion of Section 101A(1A) of the CGST Act- to empower any "existing Authority" pending the constitution of the National Appellate Authority for Advance Rulings

- Section 101A(1A) of the CGST Act is being proposed to be inserted with effect from 01.04.2026, wherein the Central Government may, on the recommendations of the GST Council, empower *"any existing Authority constituted under any law"* to hear appeals under Section 101B of the CGST Act, pending the constitution of the National Appellate Authority for Advance Rulings (**NAAAR**). The "existing Authority" can also include a Tribunal.

ELP COMMENTS:

Section 101A, relating to constitution of NAAAR, was first introduced in the Finance Act, 2019, in order to hear appeals from conflicting advance rulings given by Appellate Authorities of two or more States or Union territories or both. Along with Section 101A, Sections 101B and 101C were introduced in the Finance Act, 2019, providing a self-contained code for the NAAAR. Sections 101A, 101B, and 101C have not been brought into effect.

The delay in establishing NAAAR has created significant legal bottlenecks, as conflicting rulings from different Appellate Authorities cannot be centrally resolved. This lack of a final, uniform appellate body forces to approach High Courts, increasing litigation and undermining tax certainty.

The broad reference of an "existing Authority" in Section 101A(1A) of the CGST Act, now encompassing any authority under any law, offers flexibility in leveraging existing institutional frameworks. While this approach may help address interim needs, clarity on the timeline for establishing the NAAAR and commencing its operations would further strengthen the reform. Empowering an existing Authority on a temporary basis provides a useful stopgap, but a defined roadmap for NAAAR's full operationalisation would enhance its effectiveness and credibility.

Omission of Section 13(8)(b) of the IGST Act- Place of supply of intermediary services where either the supplier or recipient is located outside India

- Currently, Section 13(8)(b) of the IGST Act provides that the place of supply of intermediary services shall be the location of the supplier of services where either the supplier or the recipient is located outside India.
- The existing provision is one of the exceptions to the default rule for the determination of the place of supply of services, as provided in Section 13(2) of the IGST Act.
- It has been proposed to omit Section 13(8)(b) of the IGST Act from given exceptions. Accordingly, the place of supply of intermediary services shall be the location of the recipient of services – governed by default rule.

ELP COMMENTS:

This omission is to implement one of the recommendations of the 56th GST Council Meeting held on 03.09.2025. The Council's recommendation was intended to aid Indian exporters of intermediary services in claiming export benefits.

Amongst the most highly contested issues in the last 9 years of GST, one has been the denial of "export of service" status despite the recipient being outside India and consideration being received in foreign exchange. The primary basis has been to allege that the Indian service providers are not acting as principal-to-principal, but are merely intermediaries, and therefore, in terms of Section 13(8)(b), the place of supply of such services is in India. This primarily impacted exporters of services such as BPOs, GCCs and Indian subsidiaries of foreign entities, and all such service providers who provided support, marketing and sales services to overseas customers.

By way of Circular No. 159/15/2021-GST dated 20.09.2021, CBIC clarified that sub-contracting for service does not automatically qualify as intermediary service. However, the clarification did not end the dispute. This issue was the subject matter of dispute before multiple High Courts, wherein the Courts have consistently taken the position that the services are in the nature of export. [Refer: *Amazon Development Centre India Pvt. Ltd. v. Addl. Commissioner of Central Tax [2024 SCC OnLine Kar 6105]; IDP Education India Pvt. Ltd. v. Union of India [2025:BHC-OS:7665]; Commissioner of DGST v. Global Opportunities Pvt. Ltd. [2025:DHC:8798 – DB]; Ernst and Young Ltd. vs. Addl. Commissioner, CGST Appeals-II, Delhi [(2023) 113 GSTR 252], Genpact India Pvt. Ltd. vs. Union of India [(2023) 109 GSTR 429], Dharmendra M. Jani vs. Union of India [2023 (72) GSTL 448 (Bom)*]

The omission should hopefully put a *quietus* to any further dispute regarding classification of supplier as intermediary.

EXCISE TARIFF CHANGES

NCCD on specified tobacco products:

- The Seventh Schedule of the Finance Act, 2001, is proposed to be amended, increasing the National Calamity Contingent Duty **(NCCD)** on tobacco products (classified under HS 2403 9910, 2403 9930 and 2403 9990) from 10% to 60%. However, the effective rate of NCCD has been capped by way of Notification No. 01/2026 – CE dated February 1, 2026, to 25% (effective from May 1, 2026).

ELP COMMENTS:

The Government has continued its policy of levying higher taxes on "sin goods," including tobacco products. In fact, these new entries have been introduced in the Schedule IV of the CE Act in December 2025 and have been made effective from February 1, 2026. This measure reinforces the Government's well-adverted, consistent efforts to regulate consumption of harmful products while streamlining the taxation framework.

Exemption on Biogas or Compressed Biogas (CBG) contained in blended Compressed Natural Gas (CNG):

- Notification No. 02/2026 – CE dated February 1, 2026 amends Exemption Notification No. 11/2017-CE dated June 30, 2017, to offer exemption from excise duty on value of Biogas or Compressed Biogas **(CBG)** contained in blended Compressed Natural Gas **(CNG)**. This will be effective from February 2, 2026.

ELP COMMENTS:

Previously, under Notification No. 05/2023-Central Excise, dated February 1, 2023, an exemption from Central Excise duty was only available in relation to GST amount paid on biogas/CBG contained in CNG. The said notification has been rescinded. Going forward, the entire value of biogas/CBG contained in CNG is to be excluded for computation of Excise Duty.

The exemption is in conformity with the "Sustainable Alternative Towards Affordable Transportation, 2018" **(SATAT)** scheme of the Ministry of Petroleum and Natural Gas for creating an ecosystem for production of compressed biogas from various waste/biomass sources.

Additional excise duty on unblended diesel for retail sale deferred

- *Vide* Notification No. 01/2025-Central Excise dated February 01, 2025, an additional duty (of INR 2 per litre) on unblended High-Speed Diesel **(HSD)** intended for retail sale was to be levied from April 01, 2026. By Notification No. 02/2026-Central Excise dated February 1, 2026, the same has now been deferred by two years and will be applicable from April 01, 2028.

CUSTOMS - LEGISLATIVE CHANGES

Introduction of provisions relating to fishing and fishing-related activities beyond the territorial waters of India

- The Finance Bill proposes to amend sub-section (2) of Section 1 to extend the jurisdiction of the Customs Act beyond the territorial waters of India for the purpose of fishing and fishing-related activities.
- A new definition clause is proposed to be inserted in Section 2 as sub-section (28A), to provide the meaning of "Indian-flagged fishing vessel" as a vessel which is used or intended to be used for the purpose of fishing in the seas and entitled to fly the flag of India.
- A new Section 56A is also proposed to be inserted, providing that that fish harvested beyond the territorial waters of India (a) may be brought into India free of duty, and, (b) upon landing at a foreign port will be treated as an export of goods from India. The manner and conditions for implementation of this provision will be prescribed by rules and regulations.

ELP COMMENTS:

Recently, in November 2025, the Ministry of External Affairs has notified the *Sustainable Harnessing of Fisheries in the Exclusive Economic Zone Rules, 2025* ("EEZ Rules"). Under Rule 9 of the EEZ Rules, fish harvested by Indian vessels in the EEZ of India, which extends up to 200 nautical miles from the coastline, are deemed of Indian origin and exempt from import duty when landed in India, while fish landed at foreign ports are treated as exports. Further, in December 2025 the MEA issued the *Guidelines for Sustainable Harnessing of Fisheries in the High Seas by Indian Flagged Fishing Vessels, 2025,* for fish harvested in the High Seas (beyond the EEZ). Similar to Rule 9 of the EEZ Rules, Rule 11 of the High Seas Rules, 2025 also provides duty-free import and export treatment for fish harvested in the High Seas.

The proposed amendments would provide the statutory support under the Customs Act to implement the said frameworks for fishing and fishing-related activities (Blue Economy) undertaken beyond India's territorial waters (up to 12 nautical miles from the coastline).

Recharacterization of penalty paid voluntarily under Section 28(5) as a "charge"

- Section 28(5) of the Customs Act, *inter-alia*, allows voluntary payment of differential duty along with applicable interest and a reduced penalty of 15% if such demand is paid within 30 days of receipt of a show cause notice.
- Post-payment of differential duty, interest and the said penalty, the proceedings are deemed to be concluded under Section 28(6)(i). The Finance Bill proposes to amend Section 28(6)(i) by way of introducing a deeming fiction that the "penalty" paid under sub-section (5) of section 28 shall be deemed to be a "charge" for non-payment of duty.

ELP COMMENTS:

The proposed amendment provides a mechanism for taxpayers who wish to settle disputes by paying their dues but are discouraged by the negative connotations of the term "penalty", which creates unintended consequences such as adverse accounting implications, reputational concerns, audit objections, and deterrence to voluntary compliance.

By specifying that the penalty under sub-section (5) of Section 28 will be treated as a "charge" for non-payment of duty under clause (i) of sub-section (6) of Section 28, the Finance Bill promotes voluntary compliance and enables taxpayers to resolve cases without fear of additional adverse consequences under any other law or regulation.

CBIC has also issued an FAQ, clarifying the above intent.

Extension of validity period of Customs Advance Ruling to five years

- The Finance Bill has proposed to amend sub-section (2) of Section 28J so as to provide that advance ruling under sub-section (1) of that section shall remain valid for a period of five years or till there is a change in law or facts on the basis of which the advance ruling has been pronounced, whichever is earlier. It has also been provided through a proviso that advance rulings currently in force can be extended upon a written request by the applicant to a total period of five years starting from the original date on which the ruling was issued.

ELP COMMENTS:

The Finance Act, 2022, had introduced a fixed validity period of three years for advance rulings under the Customs Act, which is now proposed to be increased to five years. The amendment shall lead to greater certainty, lesser disputes and facilitating better business planning.

The proposed amendment is also in line with Article 3.3 of the WTO Trade Facilitation Agreement 2013, which provides that advance rulings shall remain valid for a reasonable time period of time unless the underlying law, facts, or circumstances change.

Prior approval of the Customs officer dispensed with for warehouse-to-warehouse transfer of goods

- The Finance Bill proposes to substitute Section 67 of the Customs Act, relating to removal of goods from one Customs-bonded warehouse to another. The proposed amendment seeks to do away with the requirement of prior permission of the Customs officer for transfer of warehoused goods from one warehouse to another, subject to prescribed conditions.

ELP COMMENTS:

This is a welcome amendment and reinforces the self-assessment regime introduced in 2011. The amendment further supports ease of doing business and a trust-based regulatory framework. Under the present scheme for inter-warehouse movement of goods, seeking prior permission from the proper officer often resulted in procedural delays, increased administrative costs and unwarranted disputes.

This amendment is also part of several proactive measures undertaken to transform the customs warehousing framework into a warehouse operator-centric system with self-declarations, electronic tracking, and risk-based audit.

Amendment to Section 84 of the Customs Act

- Section 84 of the Customs Act empowers CBIC to make regulations inter alia for examination and assessment of duty of goods imported/exported by post or courier.
- The Finance Bill proposes an amendment to Section 84, in clause (b), to further empower CBIC to make regulations regarding "custody" of such goods imported/exported by post or courier. Accordingly, the word "examination" in clause (b) has been substituted with "examination, custody".

Extension of Deferred Payment of Import Duty for AEOs and introduction of new class of "Eligible Manufacturer Importers"

- The Financial Bill proposed to amend the Deferred Payment of Import Duty Rules, 2016 to extend the deferred payment period from 15 days to 30 days for Tier-2 and Tier-3 Authorized Economic Operators **(AEOs)** with effect from March 1, 2026 [Notification No. 13/2026-Cus. (N.T.) dated February 1, 2026].
- A new class of "Eligible Manufacturer Importers" is being introduced under Section 47 [Notification No. 12/2026-Cus. (N.T.) dated February 1, 2026], who will be allowed to use the same 30-day deferred payment facility, but only for a defined transition window up to March 31, 2028.

ELP COMMENTS:

Deferred payment of import duty is a trust-based facilitation measure under which eligible importers are allowed to clear goods without immediate payment of duty, subject to payment within the prescribed period. The extension of the deferral period to 30 days for Tier-2 and Tier-3 AEOs is aimed at further easing cash-flow constraints, improving liquidity management, and strengthening the facilitation benefits associated with higher AEO accreditation. Similarly, the introduction of Eligible Manufacturer-Importers, aligns manufacturer-importers with accredited AEOs for the purpose of deferred payment of import duty and is intended to incentivise such entities to progressively upgrade themselves to Tier-3 AEO status.

CUSTOMS - TARIFF CHANGES

- **Tarrifization:** The current effective BCD rate on certain commodities would operate through the First Schedule and the corresponding entries would be omitted from the concerned duty concession / exemption notifications. The changes will come into effect from May 1, 2026.

ELP COMMENTS:

Tarrifization would remove the broad power to amend rates by notification in the Official Gazette, replacing it with a requirement to follow the full legislative process. However, Section 8A of the Customs Tariff Act, 1975 would continue to operate, permitting limited rate adjustments to meet immediate economic exigencies.

- **New tariff entries:** It is proposed to create new tariff items to help in better product identification, getting actual transaction data, help in effective monitoring and deciding policy measures. The said entries are proposed to be effective from May 1, 2026. The illustrative products include cranberries, blueberries, specific organic chemicals, battery separators, certain parts of transmission apparatus etc.

- **Key effective BCD rate changes:**

Heading, subheading, tariff item	Description of Goods	Existing Rate	Revised rate	Effective date
2612 20 00	Monazite	2.5	Nil	February 2, 2026
2841 90 00	Sodium antimonate for use in manufacture of solar glass	7.5	Nil	February 2, 2026
2815 20 00	Potassium hydroxide	Nil	7.5	February 2, 2026
30	17 new drugs/medicines	As applicable	Nil	February 2, 2026

7229	INVAR (Nickel-iron alloy)	5	7.5	February 2, 2026
8401 30 00	All goods for generation of nuclear power	7.5	Nil	February 2, 2026
8401 40 00	Control and Protector Absorber Rods, and Burnable Absorber Rods, for generation of nuclear power	7.5	Nil	February 2, 2026
8501,8504, 8516	Specified goods for use in the manufacture of Microwave Ovens falling under tariff item 8516 50 00	As Applicable	Nil	February 2, 2026
8529 90 90	Parts of Radio Trunking terminals	5	15	February 2, 2026
9804	All dutiable goods, imported for personal use*	20	10	April 1, 2026

** SWS shall be levied on all goods falling under heading 9804 (i.e. dutiable goods imported for personal use), effective from April 1, 2026*

CUSTOMS DUTY EXEMPTIONS

- A comprehensive review of existing Customs duty exemption notifications has been undertaken with the objectives of rationalizing exemptions, withdrawing benefits for goods that are domestically manufactured and simplifying the determination of applicable duty rates.
- In this regard, following amendments are proposed:
  - Extension of certain exemptions/ concessional rates for a defined period of 2 years up to March 31, 2028 (on goods such as pharma reference standards, parts of ATM, LED lights, precious stones, etc).
  - New prescription of sunset clause on certain exemptions/ concessional rates up to March 31, 2027 (on goods such as gold/ silver dore bars) or March 31, 2028 (on works of art and antiques intended for public exhibition).
  - Exemption/ concessional rate benefit on certain goods allowed to lapse, which will now remain valid only up to March 31, 2026 (on goods such as parts of video games, naphtha for manufacture of fertilizers, etc).
  - Discontinuation of exemption/ concessional rate on certain goods (such as coffee roasting machine, animals/ birds imported by zoo, ammonium phosphate for manufacture of complex fertilizers, CD- ROMS, etc), effective from February 2, 2026.
  - Removal of sunset provisions for specific exemptions/ concessional rates, thereby continuing these benefits on an ongoing basis (on parts suitable to be used solely or principally with the transmission, radio and reception apparatus, cargo ships, cruise ships and similar vessels).
- Certain exemption/ concessional rate entries have either been expanded (such as exemption on products used in the manufacture of solar photovoltaic cells or modules) or associated condition has been relaxed (extension of period of export from 6 months to 12 months - for certain textile and leather products etc.).

- Exemption introduced for capital goods used in the manufacturing of Lithium-Ion Cells for batteries of Battery Energy Storage Systems, effective from February 2, 2026.
- Exemption introduced in respect of raw materials imported for manufacture of parts of aircraft for maintenance, repair, or overhauling of
  - Aircraft or
  - Components or parts of aircraft, including engines

  provided that the goods are imported by Public Sector Units under the Ministry of Defence, subject to conditions prescribed therein, effective from February 2, 2026
- Exemption introduced for components or parts including engines, of aircraft, for the manufacture of aircraft or parts of such aircraft, subject to conditions prescribed therein, effective from February 2, 2026.

CUSTOMS – NON-TARIFF CHANGES

Modernization of new Passenger Baggage Rules & Regulations

- Presently, the **Passenger's Baggage (Levy of Fees) Regulations (1966)**, the **Baggage (Transit to Customs Stations) Regulations (1967)**, and the **Customs Baggage Declaration Regulations (2013)** collectively establish the administrative and fiscal protocols for handling personal baggage carried by travellers at Indian ports to ensure transparency, legal accountability and appropriate taxability. They also specified collection of fees and logistics for moving baggage between different customs points.
- By Notification No. 15/2026 dt. February 01, 2026, the Government has now introduced new **Customs Baggage (Declaration and Processing) Regulations, 2026 (2026 Regulations)**, with a view to consolidate and modernize India's baggage laws. All earlier regulations have been superseded.
- The 2026 Regulations makes the following key changes, including:
  - Passengers must now declare dutiable or prohibited goods electronically through the "automated system," which includes the *Atithi* mobile application or the ICEGATE portal, before entering the Green Channel.
  - Declarations can now be filed up to three days in advance of arrival for both accompanied and unaccompanied baggage.
  - New regulations apply to baggage of passengers coming into or going outside India, as against existing transit (to customs stations) and declaration regulations which only applied to persons coming into India.
  - The terms "Green Channel" and "Red Channel" (earlier part of trade notices and CBIC travel guides) have been specifically defined, granting them statutory recognition.
  - Five standardized forms (CBD-I to CBD-V), applicable to specified categories of clearances, have been introduced instead of the existing single Form I. The system now moves towards a "risk-based evaluation" for verifying electronic declarations rather than manual inspection at the discretion of customs officer under general customs instructions.
  - Penalty provisions for contravention have been specifically provided, as against erstwhile regulations which were governed by Customs Act. The period for detained or unclaimed baggage can now be extended by up to six months after approval from Principal Commissioner or Commissioner of customs.

- All electronic declarations and supporting documents must now be retained for a period of five years**.**

- The Government has also superseded existing Baggage Rules, 2016 with the new Baggage Rules, 2026 bringing about significant changes to duty-free allowances and procedural requirements for passengers. Major changes include:
  - The exclusion of jewellery from the definition of "personal effects" has been removed, and the term "jewellery" specifically defined.
  - Previously, any person residing abroad for more than one year was allowed duty free clearance of jewellery up to 20 grams/having a value less than INR 50,000 (males) and up to 40 grams/having a value less than INR 1,00,000 (females). Such imports have now been restricted to a resident/ tourist of Indian origin with the value caps removed.
  - The previous restriction on duty-free allowances for infants only for used personal effects has been removed.
  - For those arriving by any mode other than land duty-free allowance of personal articles have been modified as herein below:

Persons	Previous Value Limit	Present Value Limit
Resident/tourist of Indian origin	INR 50,000	INR 75,000
Foreigner with a valid visa (other than tourist visa)		
tourists of foreign origin	INR 15,000	INR 25,000
Persons arriving from Nepal, Bhutan or Myanmar	INR 15,000	No value limit specific to such persons.

  - The personal and household articles brought when transferring residence from abroad have now been substantially increased from existing range of INR 60,000 – INR 5,00,000 to INR 1,50,000 – INR 7,50,000 worth of value. Further, the goods brought under these limits have been expanded to, inter alia, include Tablets (e.g., iPad), Small Bluetooth Speakers, Robotic Vacuum Cleaners, Air Purifiers, etc.
  - The value of gift articles which crew members are allowed to bring has been increased from INR 1,500 to INR 2,500.
  - Advance Electronic Declaration has been introduced wherein unused personal items taken out of India can be re-imported into India duty-free after filing it electronically or otherwise at the time of departure. Similar

dispensation introduced for tourists coming into India for temporary imports. These may be subject to risk-based verification.

ELP COMMENTS:

The newly introduced Baggage Rules and Regulations represent a significant shift towards digital administration while consolidating three legacy regulations into one comprehensive framework as part of government's broader initiative to simplify tax structure and improve "Ease of Living" for international travellers. Further, the inspection system moves towards risk-based instead of existing discretionary. It also seeks to modernize and relax duty free allowances for items imported for personal use, thereby reducing financial burden on travellers.

It is also relevant to note that under the new Baggage Rules, "jewellery" is no longer excluded from the definition of "personal effects" which aligns with the interpretation adopted by the courts. *[Refer: Kartik Sahdev v. Commissioner Of Customs [2025 (4) TMI 123 - Delhi High Court; Shamina v. Commissioner of Customs [2025 (8) TMI 658 - Delhi High Court], Saba Simran v. Union of India & Ors. [2025 (8) TMI 658 - Delhi High Court] and DRI v. Pushpa Lekhumal Tolani [2017 (8) TMI 684 - Supreme Court]]* Further, the term "jewellery" has been specifically defined while value caps on clearance of gold and silver have been removed. Therefore, now Customs authorities can no longer proceed against jewellery if it meets the prescribed weight or value caps.

INTERNATIONAL TRADE

MANUFACTURING

- The Budget 2026–27 continues to place manufacturing at the centre of India's growth strategy, with targeted interventions across labour-intensive and strategic sectors.
- ***Textiles:*** The Budget proposes an integrated programme covering fibre self-reliance, cluster modernisation, testing and certification infrastructure, sustainable textiles, and expanded skilling (including Samarth 2.0), alongside Mega Textile Parks. These interventions are relevant for addressing non-tariff barriers faced by Indian textile and apparel exports, particularly in relation to standards, sustainability benchmarks, and delivery timelines in major markets such as the EU, the UK, and the United States.
- ***Electronics:*** The Budget increases the outlay for the Electronics Components Manufacturing Scheme from INR 22,919 crore to INR 40,000 crore, signalling a continued focus on domestic value addition in a sector characterised by high import dependence. From a trade perspective, this may support supply-chain diversification, reduce exposure to import restrictions and geopolitical shocks, and enhance India's ability to integrate into global electronics manufacturing networks.
- ***Semiconductors:*** The proposed India Semiconductor Mission **(ISM 2.0)**, with a focus on equipment, materials, full-stack Indian IP and supply-chain development, reflects an effort to build upstream capabilities in a strategically sensitive sector. These measures are relevant for reducing reliance on concentrated foreign suppliers and for enabling India to participate more meaningfully in cross-border semiconductor supply chains, which are increasingly shaped by geopolitical considerations.
- ***Chemicals:*** The proposal to support States in establishing plug-and-play Chemical Parks addresses structural constraints faced by chemical exporters, including infrastructure gaps, regulatory compliance, and scale limitations. Given the sector's exposure to tariff escalation, technical regulations, environmental standards, and trade-remedy actions in major export markets, improved domestic infrastructure may help enhance export competitiveness and reduce compliance-related trade frictions.

Collectively, the manufacturing interventions seek to strengthen India's export-oriented manufacturing base by reducing import dependence on critical inputs, improving compliance with non-tariff measures, and enhancing supply-chain resilience.

SERVICES

- The Budget 2026–27 places a renewed emphasis on the services sector as a pathway for employment creation and export growth, with an explicit ambition to make India a global services leader with a 10% share of global services by 2047. A High-Powered "Education to Employment and Enterprise" Standing Committee has been proposed to identify priority services sub-sectors, evaluate cross-sectoral regulatory issues, assess the impact of emerging technologies such as AI on jobs and skills, and recommend measures to expand services exports.
- On taxation and investment enablers, the Budget proposes major facilitation measures for the IT and digital economy, including consolidation of IT-enabled categories into a single "Information Technology Services" category

with a common safe harbour margin, significant enhancement of the safe harbour threshold, and an automated approval process. To attract global business linked to digital infrastructure, the Budget proposes a tax holiday till 2047 for eligible foreign companies providing global cloud services using Indian data centre services (with India-facing services routed through an Indian reseller entity), alongside a safe harbour margin for related-party data centre service provision.

- On sectoral services, the Budget proposes steps to develop a care economy and allied health workforce, establish hubs for medical value tourism, expand institutional capacity in AYUSH, and deepen tourism-led job creation through skilling, a National Institute of Hospitality, and a National Destination Digital Knowledge Grid.

ELP COMMENTS:

Taken together, the manufacturing and services measures in Budget 2026–27 reflect a calibrated growth strategy that combines industrial capacity building with a renewed push towards services-led employment and exports. On the manufacturing side, the focus on textiles, chemicals, electronics and semiconductors underscores an emphasis on scale, localisation and supply chain resilience, particularly in sectors integrated into global value chains. On the services side, the Budget signals a clear intent to position India as a global services hub, supported by skilling, institutional coordination and enhanced tax certainty, including through streamlined safe harbour rules and incentives linked to data-centre-enabled service delivery. Collectively, the Budget reflects an integrated approach to manufacturing and services that seeks to strengthen India's participation in global value chains and services markets.

EASE OF TRADE FOR EXPORTERS

With a focus on enhancing export competitiveness across manufacturing and primary sectors, the Budget 2026–27 introduces targeted measures to ease trade and reduce operational constraints for exporters. These include:

- Duty-free imports of specified inputs used for processing seafood products for export increased from 1% to 3% of the FOB value of the previous year's export turnover.
- Fish catch by an Indian fishing vessel in Exclusive Economic Zone **(EEZ)** or on the High Seas will be made free of duty and landing of such fish on foreign port will be treated as export of goods.
- Benefits of duty-free imports of specified inputs currently available to exporters of leather or synthetic footwear exporters now extended to exports of shoe uppers as well.
- In case of exports of final products of leather or textile garments, leather or synthetic footwear and other leather products, time-period extended from 6 months to 1 year from date of import of duty-free inputs.
- BCD exemption in duties extended to imports of capital goods for manufacturing Lithium-Ion Cells for battery energy storage systems. Similar exemptions allowed or extended on imports of goods required for Nuclear Power Projects, on import of capital goods required for processing of critical minerals in India, on raw materials required to manufacture aircraft parts to be used in defence sector, and on specified parts used in the manufacture of microwave ovens.
- Complete removal of current value cap of INR 10 lakh per consignment on courier exports.

ELP COMMENTS:

- **The budget has laid particular emphasis on the exports of marine products and has attempted to enhance its competitiveness. India exports marine products worth about USD 7,478 million with YoY growth of about 15% as of Nov 2025. India is also in pursuit of an FTA with the USA which is also the largest export market for India's marine products amounting to about USD 2,324 million in 2025. These incentives are likely to further boost exports from the marine sector.**
- **India exports leather to the tune of about USD 4,000 million annually with majority of the exports going to the USA, the UK and to the EU. India has already concluded a trade pact with the UK and the EU, and the one with the USA is in pipeline. Most leather product manufacturers in India are MSMEs, and in the context of recent tariff shocks in the United States, the extension of export timelines is likely to provide them with additional flexibility to recalibrate supply chains and explore alternative markets without forfeiting the benefits of duty-free input imports.**
- **The Budget reflects a continued policy focus on strengthening domestic capabilities in strategic energy and clean technology sectors, including nuclear energy, battery energy storage systems, and the electric vehicle ecosystem. Given India's continued dependence on imported crude oil and critical inputs, these measures are aimed at mitigating exposure to external supply and price shocks that can affect foreign exchange stability and export competitiveness**

TRADE FACILITATION

The Budget announces several customs procedures aimed at reducing transaction costs and improving certainty for importers and exporters. Key measures include:

- The Finance Minister announced an extension of the duty deferral period for Tier II and Tier III Authorised Economic Operators **(AEOs)** from 15 days to 30 days. Eligible manufacturer-importers will also be permitted to avail this facility, with a view to facilitating their progression towards Tier III AEO accreditation. In addition, the validity of advance rulings binding on Customs is proposed to be extended from three years to five years, enhancing certainty for long-term business planning.
- The Budget further proposes to operationalise trust-based customs clearances by enabling automatic release of goods imported by trusted importers where no mandatory compliance requirements apply. In parallel, the customs warehousing framework will transition to a warehouse-operator-centric model based on self-declaration, electronic tracking, and risk-based audits, replacing officer-dependent approval processes.
- The announcement of a unified digital platform for processes involving clearance of food, drugs, plant and animal & wildlife products is expected to be operationalized by April 2026, while other product categories are to be added by the end of FY 2026-27. The Customs Integrated System **(CIS)** is proposed to be rolled out in the next 2 years which will onboard advanced AI technology for risk assessment in a phased manner.

ELP COMMENTS:

The emphasis on trust-based customs systems, extended advance rulings and greater reliance on digitalisation and risk management reflects a continued shift away from transaction-level scrutiny towards compliance-based facilitation. Read together with the Government's push towards integrated digital trade infrastructure through initiatives such as Bharat Trade Net, these measures are likely to benefit exporters and importers integrated into global value chains by reducing procedural friction and enhancing predictability. Effective implementation will be critical to ensure uniform application across ports and agencies.

STRATEGIC MINERALS - RARE EARTH MANUFACTURING AND SUPPLY CHAINS

- In continuation of the Scheme for Rare Earth Permanent Magnets launched in November 2025, the Budget 2026–27 proposes to support mineral-rich States, namely Odisha, Kerala, Andhra Pradesh and Tamil Nadu, in establishing dedicated Rare Earth Corridors.
- These corridors are intended to facilitate the development of an integrated ecosystem encompassing mining, processing, research and manufacturing of rare earth elements.

ELP COMMENTS:

The Budget's emphasis on rare earths reflects a calibrated response to evolving global trade dynamics and strategic industrial policy considerations. Over the past decade, global rare earth supply chains have become increasingly concentrated, with China accounting for a dominant share of mining, processing and downstream magnet manufacturing. This concentration has allowed rare earths to emerge as a tool of strategic leverage in trade negotiations and geopolitical engagements, including in the context of export controls and supply restrictions imposed during periods of trade tension.

From this perspective, India's focus on building domestic rare earth capabilities serves objectives that extend beyond import substitution. Strengthening indigenous mining, processing and manufacturing capacity has the potential to reduce vulnerability to supply disruptions, enhance India's bargaining position in trade negotiations, and support strategic autonomy in sectors such as electric mobility, defence, renewable energy and advanced electronics - sectors that are increasingly viewed through a national security and industrial resilience lens globally.

SPECIAL ECONOMIC ZONES (SEZS)

- To address capacity underutilisation in Special Economic Zones due to global trade disruptions, the Budget proposes a one-time measure permitting eligible manufacturing units in SEZs to sell a prescribed proportion of their output into the Domestic Tariff Area **(DTA)** at concessional rates of duty, subject to regulatory safeguards to ensure a level playing field for domestic producers.

ELP COMMENTS:

It is relevant to note that India's SEZ programme has historically been subject to scrutiny and countervailing measures in several jurisdictions under the WTO Agreement on Subsidies and Countervailing Measures. One of India's consistent defences in such proceedings has been that goods cleared into the Domestic Tariff Area were

subject to full customs and indirect taxes. To the extent that concessional DTA clearances alter this treatment, the design and implementation of the measure will be relevant from the perspective of future countervailing duty exposure and the continued robustness of India's existing legal defences.

ENERGY SECURITY AND GREEN INDUSTRIAL STRATEGY

- Reflecting the increasing intersection between climate policy, energy security and international trade, the Budget introduces targeted measures to support decarbonization, strengthen access to critical minerals, and remove tax distortions affecting low-carbon and green fuels.
- The Budget provides Carbon Capture Utilization and Storage **(CCUS)** Roadmap with a dedicated outlay of INR 20,000 crore over the next five years.
- Tax incentives for critical minerals include amending the Income Tax Act to make exploration and prospecting expenses deductible, exempting BCD on capital goods used for critical mineral processing, and removing BCD on Monazite, a key source of rare earth elements.
- The Budget introduces targeted reforms to support low-carbon fuels by removing tax distortions. This includes excise duty relief for CNG blended with biogas (where duty shall now only apply to the CNG component), extending BCD exemptions to capital goods used for manufacturing lithium-ion cells for Battery Energy Storage Systems **(BESS)**, and significantly increasing (by 1,100%) the outlay for the coal and lignite gasification incentive scheme to INR 3,525 crore for FY 27.
- The Budget has proposed extending existing BCD exemption on imports of goods required for Nuclear Power Projects until 2035. Additionally, this exemption will now apply to all nuclear plants, irrespective of their generation capacity, broadening the scope of the exemption.

ELP COMMENTS:

The Budget's combined focus on decarbonisation, critical minerals and green fuels reflects a strategic alignment of India's industrial, energy and trade priorities.

The Budget's CCUS outlay signals government's intent on decreasing the direct emissions of carbon intensive sectors. This capital investment may improve India's preparedness for emerging carbon-border and climate-linked trade measures and supports the broader policy direction underlying the Carbon Credit Trading Scheme (CCTS) for hard-to-abate sectors.

For critical minerals, the Budget articulates a coherent approach across the value chain. The introduction of tax deductions for exploration activities, coupled with processing-linked customs duty exemptions, signals a full-supply-chain strategy aimed at strengthening domestic capabilities and reducing external dependencies. BCD exemption for goods required for nuclear plants, provides long-term regulatory certainty for developers and supports India's strategic move toward reliable, low-carbon energy.

For green fuels ecosystem, targeted tax and duty rationalisation measures seek to improve project viability. Excise relief for biogas blending, extension of BCD exemptions for energy storage infrastructure, and enhanced support for gasification collectively reinforce the commercial case for low-carbon fuel deployment.

CORPORATE LAWS

THREE-PRONGED FRAMEWORK TO DEVELOP MSMES – EQUITY, LIQUIDITY AND PROFESSIONAL SUPPORT

- **Equity Support**

  The Government proposes to set up an INR 100 billion SME Growth Fund to provide equity and quasi-equity capital to MSMEs to help them scale into "Champion Enterprises". In addition, a further INR 20 billion infusion into the Self-Reliant India **(SRI)** Fund is proposed to continue providing risk capital support to micro and small enterprises and improve their access to investment funding.

- **Liquidity Support**

  The Government intends to strengthen the Trade Receivables Discounting System **(TReDS)**, under which over INR 7,000 billion financing has already been enabled for MSMEs, and to mandate its use by Central Public Sector Enterprises for settlement of all MSME procurement payments to set a benchmark for timely payments.

  It further proposes to introduce a credit guarantee mechanism through the Credit Guarantee Fund Trust for Micro and Small Enterprises **(CGTMSE)** to support invoice discounting, integrate the Government e-Marketplace **(GeM)** with TReDS to share government procurement data with financiers for quicker and cheaper financing, and securitise TReDS receivables as asset-backed securities to develop a secondary market and enhance overall liquidity.

ELP COMMENTS:

The proposed measures are expected to strengthen MSMEs by improving access to capital, ensuring faster realization of receivables through TReDS, and providing affordable compliance support, thereby enhancing their liquidity and overall scalability.

- **Professional Support**

  The Government will collaborate with professional bodies such as the Institute of Chartered Accountants of India, Institute of Company Secretaries of India and the Institute of Cost Accountants of India to design short-term, modular courses and practical toolkits for training accredited para-professionals, to be designated as "Corporate Mitras", who will provide affordable, on-ground support to MSMEs in areas such as regulatory filings, accounting, and compliance, particularly in Tier-II and Tier-III towns.

REVIEW AND RATIONALISATION OF THE FOREIGN EXCHANGE MANAGEMENT (NON-DEBT INSTRUMENTS) FRAMEWORK

The Government proposes to undertake a comprehensive review of the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 to establish a more contemporary, streamlined and user-friendly regulatory framework for foreign investments, aligned with India's evolving economic priorities and ease-of-doing-business objectives.

CORPORATE BOND MARKET REFORMS

A market-making framework is proposed to be introduced to improve liquidity in the corporate bond market, along with suitable access to funds and derivatives on corporate bond indices. It is also proposed to introduce Total Return Swaps **(TRS)** on corporate bonds to facilitate risk management and enhance investor participation.

MUNICIPAL BONDS

To encourage higher-value issuances of municipal bonds by large cities, the Government has proposed an incentive of INR 1 billion for a single bond issuance exceeding INR 10 billion. The existing scheme under the Atal Mission for Rejuvenation and Urban Transformation **(AMRUT)**, which incentivises issuances of up to INR 2 billion, will continue to support smaller and medium towns.

EASE OF DOING BUSINESS – INVESTMENT BY PROI

Individual persons resident outside India **(PROI)** will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme **(PIS)**. The investment limit for an individual PROI is proposed to be increased from 5% to 10%, and the overall aggregate limit for all individual PROIs is proposed to be enhanced from 10% to 24%.

ELP COMMENTS:

The proposal is likely to enhance foreign portfolio participation and improve liquidity in listed securities by increasing investment limits for PROIs, while monitoring compliance with the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019.

LABOUR AND EMPLOYMENT

BACKDROP TO THE BUDGET 2026

The Budget 2026–27 is framed against the Government's stated vision of Viksit Bharat, with employment generation, skilling and workforce participation positioned as core enablers of economic transformation. The Finance Minister expressly reiterated that employment creation has been a continuing outcome of structural reforms, sustained public investment and domestic capacity building, even amidst global supply chain disruptions and rapid technological shifts.

A key contextual development for labour and employment stakeholders is the explicit acknowledgment of the notification of the Labour Codes as part of the Government's "Reform Express", alongside GST simplification and compliance rationalization.

The Budget is also notably Yuva Shakti-driven, with capacity building, services-sector expansion and technology-led skilling forming the backbone of the employment strategy, in preference to direct wage subsidies or social security enhancements. A recurring emphasis on artificial intelligence **(AI)** positions technology as a key employment multiplier, particularly in services, education, healthcare and manufacturing. At the same time, the Budget reflects a measured approach to AI adoption, implicitly recognizing emerging concerns around "AI washing", where superficial or unregulated deployment of AI risks overstating productivity gains without corresponding workforce readiness, ethical safeguards or job transition planning.

However, the Budget does not address implementation timelines, phased roll out strategies, or interpretative guidance, and consequently continues to leave employers facing regulatory uncertainty in matters relating to workforce restructuring, industrial relations, and social security compliance. The four Labour Codes, which consolidate 29 central labour laws, namely the Code on Wages, 2019, the Code on Social Security, 2020, the Code on Industrial Relations, 2020, and the Code on Occupational Safety, Health and Working Conditions, 2020, were notified on November 21, 2025. The draft Central Rules, published on December 31, 2025, have not yet been notified and are currently within the prescribed 45-day period for receipt of objections and suggestions from stakeholders and other potentially impacted parties.

Further, while there was policy-level discussion around corporate tax rationalisation as a potential stimulus for private investment and job creation, the absence of any substantive rate reductions or targeted tax incentives for employment-intensive sectors resulted in a muted response from corporate stakeholders.

GLANCE AT THE BUDGET 2026

The Finance Minister in the Budget Speech on February 1, 2026, referred to the terms "labour" and "employment" over fifteen times, underscoring the centrality of workforce development to the Union Budget 2026–27. Set out below are the key highlights of the Budget with reference to their anticipated impact on India's workforce:

- ***Labour Codes and Compliance Environment:*** The Budget confirms that over 350 reforms, including the notification of the four Labour Codes, have been rolled out, with continued engagement between the Centre and States to reduce compliance burdens and simplify regulatory processes.
- ***Manufacturing & Industrial Employment:*** The Biopharma SHAKTI initiative, with an outlay of INR 10,000 crore, seeks to establish domestic biologics manufacturing capacity through new NIPERs, clinical trial networks and regulatory infrastructure. From an employment perspective, this is expected to generate high-skilled scientific, technical and regulatory roles, while also creating ancillary contractual employment across supply chains. In parallel, the revival of 200 legacy industrial clusters through infrastructure modernisation and technology

upgradation is expected to generate indirect and semi-skilled employment, particularly in Tier II and Tier III industrial regions.

- ***MSMEs and the Informal Workforce:*** MSMEs continue to be a key engine of employment, contributing nearly 30% of India's GDP and employing over 110 million workers, mostly in informal or semi-formal arrangements. Budget 2026 introduces several measures to support MSME growth and strengthen formalisation. An INR 10,000 crore SME Growth Fund has been proposed to create "champion" enterprises, along with a top-up to the Self-Reliant India Fund to ensure continued access to risk capital. One of the key objectives for this move and its direct impact will be to increase employment further in the MSME sector.
- ***Textiles and Labour-Intensive Sectors:*** The Budget 2026 places a strong emphasis on strengthening the textile sector, especially its labour-intensive segments, by proposing an integrated programme with multiple components. A National Fibre Scheme aims to achieve self-reliance in natural fibres such as silk, wool and jute, as well as man-made and new-age fibres. A Textile Expansion and Employment Scheme will modernise traditional clusters by providing capital support for machinery, technology upgrades and common testing and certification centres. The National Handloom and Handicraft Programme **(NHHP)** will integrate and streamline existing schemes to provide targeted support to weavers and artisans. The Text-ECON initiative is designed to make Indian textiles globally competitive and sustainable, while Samarth 2.0 will modernise and upgrade the textile skilling ecosystem through industry-academic collaboration. The Budget also proposes the setting up of mega textile parks to bring production and value addition together, with a focus on technical textiles, and introduces the Mahatma Gandhi Gram Swaraj initiative to strengthen khadi, handloom and handicrafts quality and market linkages with improved recruitment system and training of artisans and weavers thereby not only attracting but upskilling the entire workforce in this sector.
- ***Services Sector & Viksit Bharat:*** Budget 2026 proposes the creation of a High-Powered Education-to-Employment and Enterprise Standing Committee to focus on identifying employment-rich sub-sectors within services, tackling regulatory hurdles and assessing the impact of emerging technologies such as AI on jobs and skills. The Budget frames services as central to long-term growth and aims to position India as a global services leader with a 10% share of the global services market by 2047, highlighting employability, digital skills and workforce mobility rather than only traditional job creation.
- ***Education, Universities and Workforce Readiness:*** The Budget proposes establishing multiple new universities and specialised education townships along major industrial and logistics corridors, integrating higher education with skill centres and residential facilities. It also includes building a girls' hostel in every district to improve access and retention for female students. Initiatives such as creator labs in schools and colleges and expanded healthcare and allied education programmes are intended to align curricula with industry needs and deepen industry-academia linkages, creating a stronger pipeline of employable graduates across sectors.
- ***Health, Care Economy and AYUSH:*** Budget 2026 lays out a comprehensive set of health and care-sector reforms, including upgrading existing allied health education infrastructure and establishing new institutions covering 10 allied health disciplines, with the aim of training one lakh allied health professionals over the coming years. Proposals also include structured training for 1.5 lakh caregivers, the development of geriatric and care ecosystems, the establishment of five regional medical tourism hubs in partnership with the private sector, and the launch of new All India Institutes of Ayurveda and expanded AYUSH research and training facilities. These measures are designed to expand regulated healthcare roles and support workforce development in both modern and traditional medicine.

- ***Tourism, Culture and Sports:*** The tourism sector is recognised as a high-employment driver, with Budget 2026 proposing initiatives including the development of ecotourism trails, heritage and cultural sites, and the establishment of a National Institute of Hospitality by upgrading existing hospitality training institutions. Structured skill development for tourism guides and service staff will be enhanced through the use of technology and AI-based training platforms, improving accessibility, personalised learning, and workforce efficiency. Tourism development is also linked with regional growth corridors. In sports, programmes under the Khelo India Mission and related capacity-building measures in sports science, medicine, analytics, and high-performance training are expected to create employment opportunities across athletes, coaches, support personnel, and allied professionals.
- ***North-Eastern Region and Regional Employment:*** Budget 2026 emphasises targeted investments in the North-Eastern states and Purvodaya (eastern) region by connecting cultural and tourism circuits, developing Buddhist circuits and enhancing heritage and eco-tourism infrastructure. These efforts are designed to stimulate regional economic activity, support local industries and services, and create employment opportunities, contributing to reduced workforce migration and stronger grassroots development.
- ***Women-Led Employment and SHE Marts:*** The Budget introduces and strengthens women-led enterprise models by launching SHE Marts, community-owned retail outlets designed to help women transition from credit-linked livelihoods to becoming enterprise owners. This initiative builds on the success of existing women's self-help programmes and aims to expand market access, branding opportunities and sustainable income streams. Additionally, enhanced financing mechanisms and supportive institutional frameworks are proposed to boost women's entrepreneurial participation and access to credit and social security.
- ***Emerging Technologies and AI:*** Budget 2026 underscores the role of AI and other emerging technologies in workforce transformation by proposing a standing committee to assess their impact on employment, skills and enterprise growth. The Budget also expands investments in national AI and research missions, supports curriculum integration of technology skills, and prioritises AI-enabled skilling and job matching systems to enhance labour market visibility and outcomes. These measures are intended to support future labour formalisation while ensuring training arrangements are instructional, outcome-oriented and aligned with evolving industry needs.

ELP COMMENTS:

While the Budget 2026 sets a positive trajectory for employment growth and workforce formalisation, the realisation of these objectives will depend on pragmatic interpretation, robust compliance frameworks, and careful alignment of technological and human capital. The absence of any guidance on implementation timelines, phased transition mechanisms or interpretative clarifications means that regulatory uncertainty for employers continues, particularly in relation to workforce restructuring, industrial relations and social security alignment. On our preliminary assessment of the Budget 2026, following seem to be some of the 'hits' and 'misses'.

HITS OF THE BUDGET

- ***Impetus for Increasing Employment:*** The Budget 2026 continues to signal strong intent to generate employment through sectoral initiatives in MSMEs, textiles, services, Biopharma, tourism, and health. The revival of 200 legacy industrial clusters, along with Biopharma SHAKTI and textile parks, is expected to create direct high-skilled jobs and indirect semi-skilled employment, particularly in Tier II and Tier III regions. Regional investments in the North-East and Purvodaya regions aim to create localized employment, reduce migration pressures, and provide new

opportunities for youth and women. The Budget also strengthens women-led enterprise models like SHE Marts, fostering entrepreneurship and formalisation of women's employment.

- ***AI as Employment Multiplier:*** AI is explicitly recognised as a tool for workforce transformation across services, tourism, healthcare, and manufacturing. Initiatives such as AI-enabled training and job-matching systems, targeted at tourism guides, hospitality staff, and healthcare professionals, have the potential to enhance employability, improve workforce efficiency, and make skills development more outcome-oriented. The establishment of a standing committee to assess AI's impact reflects a forward-looking approach to align technology adoption with labour outcomes.
- ***Upskilling and Workforce Readiness:*** Budget 2026 places strong emphasis on upskilling through new universities, specialised education townships, creator labs, and Samarth 2.0 in textiles and other labour-intensive sectors, while AI-enabled skilling platforms in tourism, services, and healthcare are intended to make the workforce future-ready, digitally competent, and aligned with emerging industry needs. By integrating skill programs with sectoral growth initiatives, the Budget ensures that the supply of trained workers meets the demand for technologically augmented roles, enhancing employability, reducing informality, and increasing wage potential. These initiatives also improve workforce mobility across sectors and regions, create local talent pipelines in industrial corridors, and help workers adapt to AI-driven workflows, mitigating the risk of retrenchment in technology-intensive sectors. Overall, the upskilling measures act as a multiplier for employment by equipping workers with recognised skills, facilitating formal sector hiring, supporting regional development, and making the labour force more resilient to technological disruption.
- ***Protecting Contractors and Gig Workers:*** The introduction of a 1–2% TDS on payments to contractors is a significant step to ensure that companies cannot evade compliance obligations related to contract and gig workers, increasing transparency in previously informal workforce arrangements. When combined with TReDS integration and mandatory government procurement for MSME payments, these measures enhance visibility of contract-based employment, improve timely payments, and strengthen wage security. Further, alignment with the Code on Social Security reinforces this protection by extending social security benefits, including provident fund and health coverage, to gig and platform workers, ensuring that even non-traditional forms of employment are formally recognised and safeguarded. While enforcement and monitoring will be critical to realise these benefits fully, the reforms collectively represent a strong push toward formalising contract work and integrating previously unprotected workers into the social security framework.

MISSES OF THE BUDGET

- ***Employment-Linked Tax Incentives:*** The Budget 2026 referenced corporate tax rationalisation as a potential lever for private-sector investment and job creation, but no substantive rate reductions or targeted incentives for employment-intensive sectors were announced. This represents a missed opportunity to directly stimulate hiring in labour-heavy industries such as textiles, MSMEs, tourism, and healthcare. Previous discussions on corporate tax rationalisation had limited appeal to employers and corporates, as they were largely incremental and did not materially reduce effective tax burdens or offer employment-linked deductions. As a result, many corporates may remain cautious about expanding their workforce or investing in new job-creating projects, particularly in sectors where wage costs are a significant factor. Without such fiscal stimuli, the immediate impetus for large-scale employment growth is weakened.

- ***Lack of Clarity on Labour Codes:*** Although the four Labour Codes have been formally notified, the Budget does not provide implementation timelines, phased roll-out strategies, or interpretative clarifications. This perpetuates regulatory uncertainty for employers regarding workforce restructuring, industrial relations, contract management, and alignment with social security obligations. Ambiguity around compliance can deter new hiring, slow formalisation efforts, and complicate decisions on retrenchment, particularly for MSMEs and sectoral clusters in transition. In practice, companies may adopt a "wait-and-see" approach until clear operational guidance is provided, which can delay employment growth and limit workforce mobility.
- ***AI Deployment and Workforce Risk:*** The Budget positions AI as a transformative tool for skills development, productivity, and workforce optimisation. However, it lacks specific safeguards or mitigation strategies for AI-driven job displacement, which has historically led to retrenchments in IT, services, analytics, and other technology-enabled sectors. Upskilling initiatives, while promising, may not fully counteract the pace of automation, particularly in semi-skilled and routine roles. Without measurable outcomes or ongoing evaluation of whether training translates into productive AI integration, there is a risk of "AI washing", where organisations report gains in efficiency and capability but fail to protect employment or create meaningful new roles.

ELP COMMENTS:

From a labour and employment perspective, Budget 2026 reflects a strategic intent to position workforce development, formalisation, and skilling at the centre of India's economic growth agenda. The measures proposed, including sectoral employment initiatives, upskilling programmes, AI-enabled training, and enhanced visibility for contractors and gig workers, demonstrate a forward-looking approach to labour market transformation. By linking skill development to sectoral growth and integrating emerging technologies, the Budget lays the groundwork for a more adaptable, digitally competent, and formally recognised workforce.

However, significant gaps remain that warrant careful attention from both employers and legal advisers. The absence of targeted, employment-linked fiscal incentives constrains the private sector's immediate hiring response, while ambiguities in the Labour Codes continue to generate regulatory uncertainty regarding workforce restructuring, social security compliance, and industrial relations. Similarly, while AI is promoted as a catalyst for productivity and employment, the lack of clear safeguards against displacement and insufficient mechanisms to measure the effectiveness of upskilling programmes expose workers and employers alike to transitional risks.

Overall, while Budget 2026 sets a positive trajectory for employment growth and workforce formalisation, the realisation of these objectives will depend on pragmatic interpretation, robust compliance frameworks, and careful alignment of technological and human capital strategies to ensure that the promise of Viksit Bharat translates into tangible, sustainable outcomes for India's workforce. Further, one has to wait and see how effectively the States participate in framing their rules under the Labour Codes, training the labour officers and authorities and having the enforcement machinery in place to address and align with the budget policy initiatives.

INFRASTRUCTURE

INTRODUCTION

Budget 2026 widens the frame from hard assets to human outcomes, from content creators to coconuts and caregivers, but keeps the growth engine anchored in infrastructure, connectivity, and competitiveness.

With record public capex of INR 12,200 billion, the Budget is about building forward, connecting markets, de-risking supply chains, and moving people and the economy together.

INFRASTRUCTURE RISK GUARANTEE FUNDS- DE-RISKING GROWTH CAPITAL

Budget Proposal

The FM proposed an Infrastructure Risk Guarantee Fund **(IRGF)** to enhance private sector confidence by providing credit guarantees to lenders, easing credit constraints, and mitigating development and construction risks to facilitate financing of infrastructure projects.

ELP COMMENTS:

The proposal formalizes the IRGF, earlier under consideration by a National Bank for Financing Infrastructure and Development led committee exploring measures to strengthen bank and institutional credit flows to infrastructure. The Economic Survey 2025-26 notes that bank credit to the infrastructure sector grew 4.6% year-on-year in October 2025, compared to 2.3% a year earlier, indicating a gradual recovery in lending appetite. By offering partial credit guarantees on project loans-modelled on MSME credit guarantee structures, the IRGF aims to share development and construction risk with lenders, support longer-tenure and higher-value financing, and enhance bankability for private sponsors in long-gestation infrastructure projects.

NATIONAL WATERWAYS AND COASTAL CONNECTIVITY

Budget Proposal

The FM proposed a push towards water based and coastal cargo connectivity by announcing:

- The operationalisation of 20 new National Waterways over the next 5 years.
- The launch of a Coastal Cargo Promotion Scheme to incentivise a modal shift of cargo from rail and road to inland waterways and coastal shipping.
- Development of a ship repair ecosystem for inland waterways at Varanasi and Patna, supporting long-term operations and skill development.

ELP COMMENTS:

India's inland and coastal shipping framework is shifting from standalone pilots to a coordinated multimodal logistics strategy. The government had notified the National Waterways Act, 2016, which had expanded the number

of national waterways from 5 to 111. The Economic Survey 2025-26 noted that as of November 2025, 32 National Waterways are operational in India. The Coastal Shipping Act, 2025, requires the central government to publish a National Coastal and Inland Shipping Strategic Plan by August 2027, with regular review of navigable routes and overlaps between inland and coastal assets.

The Jal Vahak Scheme, notified in December 2024, provides up to 35% operating expenditure support for eligible long-haul waterway cargo, while the proposed Coastal Cargo Promotion Scheme is designed to shift freight from road and rail to waterways and coastal shipping. For developers and financiers, these incentives strengthen the business case for river ports, coastal terminals and last-mile links.

The western and eastern waterfronts of India are witnessing a burst of activity by way of active tenders for the development of marinas, water transport, water taxis, jetties, international, and national terminals. There is a clear and apparent effort to not only grow the infrastructure and generate employment but also attract private participation and foreign direct investment in the coastal and inland waterway infrastructure. All this is in line with the Maritime Amrit Kaal Vision 2047 released by the Ministry of Ports, Shipping and Waterways in October 2023 to improve multi-modal integration, and creates a sector to look out for.

STRATEGIC MINERALS - RARE EARTH CORRIDORS

Budget Proposal

In November 2025, the government approved the 'Scheme to Promote Manufacturing of Sintered Rare Earth Permanent Magnets. The Government now proposes to support the mineral-rich States of Odisha, Kerala, Andhra Pradesh, and Tamil Nadu to establish dedicated Rare Earth Corridors to promote mining, processing, research, and manufacturing.

ELP COMMENTS:

Rare Earth Corridors signal a shift from scattered mining to planned, corridor-based industrialization, integrating extraction, refining, and permanent magnet production in key states. Building on the 2023 amendment to the Mines and Minerals (Development and Regulation) Act, 1957and the auction of critical mineral blocks, the approach is designed to strengthen domestic supply chains for electric vehicles, renewable energy, and electronics. When coordinated with the Critical Mineral Mission and emerging offshore mining frameworks, these corridors have the potential to support specialized industrial clusters

INDIA SEMICONDUCTOR MISSION (ISM 2.0)

Budget Proposal

The FM has announced the launch of ISM 2.0 with a focus on incentivizing domestic production of semiconductor equipment and materials, driving the design of full-stack IP, and fortifying supply chains, alongside industry led research and training centers to develop a skilled workforce.

ELP COMMENTS:

ISM 2.0 marks a decisive shift from a fab first strategy to a full ecosystem approach, extending incentives to equipment, materials, and indigenous chip and IP design alongside manufacturing capacity. For infrastructure and

real assets players, this creates a multi-layered opportunity, semiconductor linked parks, utilities, and specialized campuses can now be developed over an expanded incentive framework, enhancing project visibility and long-term bankability.

The focus on industry led research and training centres also opens scope for public private partnership style models around labs, design institutes, and data centre grade facilities, supported by performance-linked subsidies and technology driven milestones. Together, these measures move semiconductors from a policy ambition to a strategic industrial platform, deepening India's role in global electronics and advanced manufacturing value chains.

CARBON CAPTURE UTILIZATION AND STORAGE

Budget Proposal

FM has proposed an outlay of INR 200 billion over the next 5 years to scale up Carbon Capture Utilization and Storage (**CCUS**) technologies, aligned with the national CCUS roadmap released in December 2025. The program targets 5sectors, i.e. power, steel, cement, refineries and chemicals, with the objective of moving CCUS from pilot stage to higher technology readiness and commercial deployment across these industries.

ELP COMMENTS:

By committing multiyear funding and identifying specific sectors, the Government has effectively elevated CCUS from a policy concept to an execution agenda within India's broader decarbonisation toolkit alongside clean power, storage, and advanced thermal and nuclear technologies.

For infrastructure developers, this points to a cluster-based model where steel, cement, refinery, chemical and power assets are integrated with shared capture, transport, and storage infrastructure to enhance scale, offtake visibility, and project bankability. CCUS ready industrial parks and corridors are likely to attract blended climate finance and environmental, social, and governance linked capital, especially where public funds de-risk early technology and storage phases.

For sponsors and investors, the Budget outlay is an early but clear signal that large industrial and energy projects will be expected to incorporate credible CCUS integration where technically and economically viable bridging the gap from pilots to commercial deployment.

TOURISM AND HOSPITALITY - LINKING MOBILITY, SKILLS AND REGIONAL GROWTH

Budget Proposal

FM announced a significant push towards tourism and hospitality which includes the following:

- 7 High-Speed Rail corridors will be developed as growth connectors between key cities to promote environmentally sustainable passenger systems.
- The National Council for Hotel Management and Catering Technology will be upgraded into a National Institute of Hospitality, serving as a bridge between academia, industry, and the Government. A pilot scheme to upskill guides

across 20 iconic tourist sites through a standardized 12-week hybrid training programme will also be launched in collaboration with an Indian Institute of Management.

- Under the Purvodaya initiative**,** an integrated East Coast Industrial Corridor with a node at Durgapur will be developed, along with 5 tourism destinations in the 5 Purvodaya States and deployment of 4,000 e-buses**.** A scheme for development of Buddhist Circuits in North-East states will focus on preservation of temples and monasteries, interpretation centres, connectivity, and pilgrim amenities.

ELP COMMENTS:

By positioning high-speed rail corridors as growth connectors, the Budget directly links connectivity with tourism and hospitality growth, compressing travel times and expanding catchments for short-stay and weekend travel. Station areas and adjoining city clusters are expected to evolve into hospitality and mixed-use hubs, creating opportunities across business, mid-scale and experiential segments.

The establishment of the National Institute of Hospitality and a nationwide guide upskilling programme marks a shift from infrastructure led tourism to a skills driven model, raising service quality and visitor engagement.

Development of Purvodaya destinations and Buddhist circuits will broaden India's tourism footprint into the East and North-East, fostering cultural, spiritual and eco-sensitive travel. Collectively, these measures create an integrated tourism ecosystem where mobility, skills and sustainability converge to position hospitality and travel as key multipliers of inclusive growth.

GLOSSARY OF TERMS

Abbreviation / Term	Meaning / Expansion
AAR / Advance Ruling (Customs)	Binding ruling on customs classification/valuation etc.
AE	Associated Enterprises
AI	Artificial Intelligence
AEO	Authorised Economic Operator
AF	Armed Forces
AJP	Artificial Juridical Person
AL	Agricultural Land
AIFTP	All India Federation of Tax Practitioners
AMRUT	Atal Mission for Rejuvenation and Urban Transformation
AMT	Alternate Minimum Tax
AO	Assessing Officer
APA	Advance Pricing Agreement
AOP	Association of Persons
Atithi app	Customs mobile application for e-baggage declarations

AY	Assessment Year
BCD	Basic Customs Duty
BESS	Battery Energy Storage Systems
Black Money Act (BMA)	Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
BOI	Body of Individuals
BTN	Bharat Trade Net
CBDT	Central Board of Direct Taxes
CCUS	Carbon Capture Utilization and Storage
CECT / CE Act	Central Excise Act, 1944 (context)
CGST Act	Central Goods and Services Tax Act, 2017
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIS	Customs Integrated System
CNG	Compressed Natural Gas
CA	Commissioner Appeals
CC	Cargo Clearance

CCTS	Carbon Credit Trading Scheme
CG	Capital Gains
CGST	Central Goods and Services Tax
CSA	Cooperative Societies Act
CA	Customs Act, 1962
DA	Designated Authority
DD	Deemed Dividend
DC	Data Centre
DIN	Document Identification Number
DPDP	Digital Personal Data Protection
DRC	Dispute Resolution Committee
DRP	Dispute Resolution Panel
DTA	Domestic Tariff Area
EEZ	Exclusive Economic Zone
ESI	Employees State Insurance

EMI	Eligible Manufacturer Importer
EPF	Employees' Provident Fund
EPF Act	Employees' Provident Funds and Miscellaneous Provisions Act, 1952
ESOP	Employee Stock Ownership Plan
ETR	Effective Tax Rate
FA	Finance Act
FTA	Free Trade Agreement
FAST-DS 2026	Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026
FB	Finance Bill
FM	Finance Minister
FY	Financial Year
GeM	Government e-Marketplace
GIFT City	Gujarat International Finance Tec-City IFSC
GR	Gross Receipt
GST	Goods and Services Tax
HC	High Court

HEC	Health and Education Cess
HSD	High-Speed Diesel
HUF	Hindu Undivided Family
IDS	Inverted Duty Structure
IFOS	Income from Other Sources
IFSC	International Financial Services Centre
IGST	Integrated Goods and Services Tax
IGST Act	Integrated Goods and Services Tax Act, 2017
ISM 2.0	India Semiconductor Mission
IT	Indirect Tax
IV	Inland Vessels
IVA	Inland Vessels Act, 2021
IWAI	Inland Waterways Authority of India
IRGF	Infrastructure Risk Guarantee Fund
IT Act	Income-tax Act, 2025 (new code)
IT Act, 1961	Income-tax Act, 1961 (repealed statute)

ITAT	Income Tax Appellate Tribunal
JAO	Jurisdictional Assessing Officer
KPO	Knowledge Process Outsourcing
LC	Labour Code
LLP	Limited Liability Partnership
LRS	Liberalised Remittance Scheme
MACT	Motor Accident Claims Tribunal
MAT	Minimum Alternate Tax
MAT Credit	Credit for MAT paid
MEA	Ministry of External Affairs
MMA	Mines and Minerals Act
MF	Mutual Funds
MIV2030	Maritime Vision of India 2030
MMR	Maximum Marginal Rate
MNE	Multinational Enterprises
MSA	Merchant Shipping Act

MSME	Micro, Small and Medium Enterprises
MV Act	Motor Vehicles Act
MVACT	Motor Vehicles Accident Claims Tribunal
NaFAC	National Faceless Assessment Centre
NAAAR	National Appellate Authority for Advance Rulings
NCCD	National Calamity Contingent Duty
NHA	National Highways Act
NHAI	National Highways Authority of India
NITI Aayog	National Institution for Transforming India
NIPER	National Institutes of Pharmaceutical Education and Research
NPO	Non-Profit Organization
OECD	Organisation for Economic Co-operation and Development
OBUs	Offshore Banking Units
PAN	Permanent Account Number
PE	Permanent Establishment
PIS	Portfolio Investment Scheme

PMA	Prevention of Money Laundering Act
PROI	Person Resident Outside India (individual)
RBI	Reserve Bank of India
ROI	Return on Investment
RFCTLARR	Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013
RNOR	Resident but Not Ordinarily Resident
SC	Supreme Court
SEZ	Special Economic Zones
SFT	Statement of Financial Transaction
SGB	Sovereign Gold Bonds
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
Sch 1	Schedule I
SHE Marts	Women-led retail outlets initiative
SRI	Self-Reliant India

STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number
TY	Tax Year
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
TP	Transfer Pricing
TRS	Total Return Swaps
TPO	Transfer Pricing Officer
TReDS	Trade Receivables Discounting System
TTS	Tonnage Tax Scheme
VAT	Value Added Tax
WTO TFA	WTO Trade Facilitation Agreement

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