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Union Budget 2026-2027

An Analysis of Direct Tax & Indirect Tax
Proposals

Foreword

Dear Reader,

It gives us great pleasure to share with you a copy of PPCO's Analysis of the Direct & Indirect Tax Proposals in the Budget 2026-27

We have consciously chosen to focus on our domain expertise of Direct & Indirect Tax to bring you a definitive analysis of the Direct & Indirect Tax issues in the shortest timeframe.

It should be noted that the provisions which shall be applicable w.e.f. 01.04.2026 shall be in force for FY 2026-2027. Those provisions which shall be applicable from specific date shall be in force from the specific date notified and in respect of Customs the provisions shall be in force from immediate effect, however, the provisions related to GST shall be applicable only after the President's assent.

As always, please do revert with your thoughts and comments on this booklet and how we can continue to support you better.

Warm Regards,
CA Amit Palsule
Partner

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Chapter 1 – Budget Highlights

- ❖ The Finance Minister, Nirmala Sitharaman, has announced a comprehensive review of the Income Tax Act 1961, and the new Income Tax Act 2025 is set to come into effect from April 1, 2026. Here are some key takeaways:
- ❖ New Income Tax Act: The new act will come into effect from April 1, 2026, with simpler income tax forms to be notified shortly.
- ❖ TDS on Property: TDS on property purchased from NRI can now be deducted under PAN-based instead of TAN.
- ❖ TCS Limit: TCS limit on tour packages reduced from 5%/20% to 2% without any limit.
- ❖ ITR Filing: Time limit to file belated ITR increased from December 31 to March 31, with staggered timelines for different types of taxpayers.
- ❖ Revised return can be filed till 31st March with nominal fees
- ❖ Exemptions: Interest awarded by Motor Accident Claims Tribunal to natural persons will be exempt from income tax, and TDS on the same will be done away with.
- ❖ Other Key Points:
 - a. Supply of Manpower Services to be brought under Section 194C of the Income Tax Act 1961.
 - b. Immunity from Penalty now includes Misreporting of Income provisions.
 - c. Dividend exempted to co-op sector on fulfilling specified conditions.
 - d. Amendment in TCS Provisions: TCS on Liberalized Remittance Scheme reduced from 5% to 2%, and TCS on Overseas Travel Package reduced from 5% to 2%.
- ❖ MAT Regime
 - a. MAT Rate Reduction: 15% → 14%
 - b. MAT Credit: Usable only under new tax regime
 - c. MAT Exemption: For non-residents taxed on presumptive basis

❖ Buyback of Shares

a. Buyback Taxation: Shifted to Capital Gains for all shareholders

b. Additional Tax on Promoters:

Corporate: 22%

Non-corporate: 30%

❖ Foreign Asset Disclosure

One-Time Window (6 Months):

- Category A: Undisclosed income/asset \leq ₹1 Cr (Tax @ 30% + additional tax @ 30% + immunity from prosecution)

- Category B: Asset disclosed but not reported \leq ₹5 Cr (Pay ₹1 lakh fee + full immunity)

Chapter 2 – Income Tax

Direct Tax

Individual

Tax rates under section 115BAC - (New Tax Regime)

For Assessment year 2027-28, there are **no changes** in the tax rates. As per the provisions of sub-section (1A) of section 115BAC of the Act, an individual or Hindu undivided family or Association of Persons [other than a co-operative society], or Body of Individuals, whether incorporated or not, or an Artificial Juridical Person, has to pay tax in respect of the total income at following rates:

Sr No.	Total Income	Rate of Tax
1	Up to Rs. 4,00,000	Nil
2	From Rs. 4,00,001 to Rs. 8,00,000	5%
3	From Rs. 8,00,001 to Rs. 12,00,000	10%
4	From Rs. 12,00,001 to Rs. 16,00,000	15%
5	From Rs. 16,00,001 to Rs. 20,00,000	20%
6	From Rs. 20,00,001 to Rs. 24,00,000	25%
7	Above Rs. 24,00,000	30%

Rebate U/s. 87A shall be available up to the Income of Rs. 12.00 lacs to an individual resident in India opts for a new tax regime u/s 115BAC.

The rebate shall not be available in respect of Income having Special Tax Rates like Income from Capital Gains.

Rebate is available only to an Individual Resident in India.

There is no change in rates of Surcharge and education cess.

Corporate

1. No change in Corporate tax rate.
2. No Changes in 'Tax Audit' limit under Section 44AB.

Employee Contribution towards PF/ESIC:

Existing Provision:

Deduction of amount paid towards PF / ESIC or any other statutory dues towards Employees Contribution was available only if the same was deposited to Government account within the Statutory Due dates mentioned in respective Acts.

Amended Provisions:

Deduction of amount paid towards PF / ESIC or any other statutory dues towards Employees Contribution will now be available only if the same has been deposited to Government account before the due date of Filing of Return.

This will result in major relief in disallowances and litigations.

Interest on Motor Accident Compensation:

Existing Provision:

Any Interest received on account of Motor accident compensation was taxable in the hands of recipient and amount was liable to TDS deduction if the same was exceeding Rs. 50,000/- at the rate of 10%.

Amended Provisions:

Interest received on account of Motor accident compensation will now be tax free. Also, no TDS will therefore apply irrespective of any amount.

This is a Humanitarian relief granted.

TDS/ TCS

Lower / NIL TDS Certificate:

Existing Provision:

Application for Lower / NIL rate of deduction for TDS had to be physically submitted to the local jurisdictional officer.

Amended Provisions:

Physical submission of application is no more required and can be electronically submitted and the approval will be system based.

This has reduced the unnecessary compliance burden of the tax payers and discretion of the AO. This might also result in faster processing of the applications.

TDS on Manpower Supply:

Existing Provision:

There was ambiguity between the TDS section and rates to be applied – whether under contract (194C) or under profession (194J)

Amended Provisions:

Manpower Supply has been explicitly clarified as “Work” and therefore TDS will be under TDS on Contract (194C)

This will reduce disputes and inconsistent deductions and as a result litigations.

TAN Requirement – Property from NRI

Existing Provision:

If any property was to be purchased from NRI, buyer required to obtain TAN for one transaction.

Amended Provisions:

Resident Individual / HUF are now exempted from obtaining TAN for one transaction and can deduct TDS on basis of PAN.

This will simplify the compliance for genuine tax payers.

International Taxation

Advance Pricing Agreement:

Existing Provision:

Under section 168(1) of the Income-tax Act, only the person who entered into an Advance Pricing Agreement (APA) with the Board was permitted to file a modified return to give effect to such agreement. There was no provision enabling an associated enterprise (AE), whose income or tax liability was correspondingly modified pursuant to the APA, to file a return or modified return. Consequently, such AEs were unable to claim refunds of excess taxes paid or taxes withheld, resulting in practical hardship.

Relief provided by the amendment:

The amendment allows the APA applicant or any associated enterprise whose income is modified due to the APA to furnish a return or modified return, limited to the terms of the APA, within three months from the end of the month in which the APA is entered into.

Example: If an APA reduces the income of an Indian AE from ₹10 crore to ₹8 crore and tax of ₹3 crore has already been deducted, the AE can now file a modified return to claim refund of excess tax paid on ₹2 crore.

Unilateral APAs for IT services to be fast-tracked for conclusion within two years, extendable by six additional months upon taxpayer's request. (detailed rules and guidelines are awaited)

Safe Harbor (detailed rules and guidelines are awaited):

IT / ITES / KPO / Contract R&D merged into one category ('Information Technology Services')

- o Uniform Safe Harbor margin of 15.5% has been prescribed
- o Threshold for availing Safe Harbor increased from ₹300 crore to ₹2,000 crore
- o Safe Harbor election now extendable up to 5 years at taxpayer's discretion
- o Safe Harbor for IT services shall be approved by an automated rule-driven process

A 15% safe harbor margin is proposed where the Indian data centre provider is a related party of the foreign cloud company

Miscellaneous Amendments

1. Rationalisation of Due Dates for Filing Return of Income

(Section 263 – Income-tax Act, 2025 & corresponding Section 139, IT Act, 1961)

Particulars	Existing Provisions	Amendments Proposed
Non-audit business cases	Due date: 31st July	Extended to 31st August
Partners of non-audit firms / spouse (sec 10 cases)	Due date: 31st July	Extended to 31st August
Audit cases (company / audit assessee)	31st October / 30th November (unchanged)	No change
ITR-1 / ITR-2 individuals	31st July	No change

2. Extension of Time Limit for Filing Revised Return;

(Section 263(6) – IT Act, 2025 & Section 139(8A), IT Act, 1961)

Issue	Existing Position	Amendment
Updated return reducing losses	Not permitted	Permitted
Return converting loss into income	Allowed	Allowed
Updated return as loss return	Not allowed	Not allowed
Due of Filing the Revised Returns	31 st December	31 st March

A nominal fee is proposed to be levied for filing the Revised returns beyond the period of Nine months from the end of relevant Tax year.

3. Scope of filing of updated return

(Sections 263 & 267 – IT Act, 2025 / Sections 139 & 148, IT Act, 1961)

Particulars	Existing Law	Amendment
Updated return after reassessment notice	Prohibited	Allowed
Mode of compliance	Only reassessment route	Updated return route permitted
Additional tax	25%,50%, 60%, 70% in 1 st , 2 nd , 3 rd , and 4 th year	+10% additional tax
Penalty exposure	Penalty possible	Penalty immunity for disclosed income

Updated Return can now be filed by tax payers for reducing the amount of Loss claimed in comparison to the amount of loss claimed in the return of loss furnished within the due date specified under sub-section (1).

4. Foreign Assets of tax Payers Disclosure Scheme 2026:

Parameter	Existing Framework	FAST-DS 2026
Disclosure window	None (post-2015)	Fresh, time-bound scheme
Eligible taxpayers	General	Small / inadvertent defaulters
Assets covered	All foreign assets	ESOPs, RSUs, dormant accounts, low-value assets
Immunity	No	Limited immunity from penalty & prosecution
Exclusions	—	Proceedings of crime, prosecution cases

This is not an Amnesty Scheme. Six monthly disclosure scheme is proposed to be applied; details are not yet notified.

If disclosure amount under Foreign Assets of Small Taxpayers – Disclosure scheme, 2026 is less than 20 lakhs, then, prosecution under Black Money Act would be relaxed.

5. No deduction u/s 93(2) would be allowed in respect of any interest expenditure incurred for earning dividend income and income from units of Mutual Funds. **(Comment- It is a regressive amendment where it would cause loss to the taxpayer who has borrowed monies to invest monies in shares and securities as all taxpayers were claiming deduction)**
6. Exemption for SGB (Sovereign Gold Bond) u/s 70(1)(x) shall be available only where such SGBs is subscribed to by a subscriber at the time of original issue and is held continuously until redemption on maturity, for all SGB issued by the RBI from time to time. **Thus, if SGB is bought from the market and held till maturity, any gain would be subject to levy of tax.**
7. **STT rates** are increased only in the cases sale of option from 0.1 % to 0.15 %, sale of an option where the option is exercised from 0.125 % to 0.15 % and on sale of future from 0.02% to 0.05%.
8. Tax audit penalty has been rationalised into late fees u/s 446 whereby it would be mandatory to pay such late fees.
9. Late fees for delay in filing of Tax Audit Report are provided in the graded manner by providing minimum amount of Rs.75,000/- to maximum amount of Rs.1,50,000/- irrespective of sales, turnover and gross receipts for all the classes of tax payable.
10. Similarly for delay in filing of TP report, late fees are provided in the graded manner by providing minimum amount of Rs.50,000/- to maximum amount of Rs.1,00,000/-

There is strong possibility that without of payment of late fees for delay in filing of TAR/TP report, such report may not be uploaded on the ITD portal whereby indirectly such payment would be mandatory. Further, system may provide for

reporting of such payment details in ITR forms or in TAR report or TP report if applicable as new forms are yet to be notified.

11. It is proposed to reduce the MAT Tax rate from 15% to 14% and consequently taxpayers can't claim carry forward of such MAT Tax credit to be set off against future tax payable

12. It is also proposed to incorporate provisions of ICDS in IND AS so as to avoid any separate set of disclosures in computation.

13. Exemption on income arising on account of providing capital equipment etc. to an electronic goods manufacturer located in custom Bonded Warehouse

- The above exemption is applicable only to Foreign Company u/s section 11 (Section 10 of Income Tax Act 1961)
- Such exemption is provided to promote manufacturing of electronic goods by a contract manufacturing and provide certainty on taxation of supply of capital equipment;
- Such contract manufacturer, being a company resident in India and it should be located in custom bonded warehouse as provided u/s 65 of Customs Act 1962 and produces electronic goods on behalf of such foreign company for a consideration.
- The above exemption u/s 11 is applicable only to Individual, Non-residents for rendering services under notified scheme in India.
- Such exemption is provided for a period of five consecutive years immediately preceding the tax year during which he visits India for the first time for rendering services, on any income which accrues or arises

outside India and is not deemed to accrue or arise in India, for five consecutive years commencing from the first year during which he visits India.

14. Exemption on any income arising in India by way of procuring data center services from a specified data center

- The above exemption is applicable only to Foreign Company u/s section 11.
- Such exemption is provided to encourage investments in data center and promote AI data framework in India.

15. Additionally, schedule III of the Act has been amended to provide for the exemption on any income received by Individual or HUF in respect of any award or agreement made on account of compulsory acquisition of any land, carried out on or after the April 1,2026, under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR) Act (Other than the award or agreement made under section 46 of the said Act. (Refer Section 10 of Income Tax Act 1961)

16. Exemption to Income scope by way of Disability pension to armed force personnel to include paramilitary personnel also.

Chapter 3 – Indirect Tax

Goods and Service Tax

There are no specific changes in GST. Only few procedural changes are there.

Note: All readers are requested intelligently to read & study the provisions of this publication. We have tried to compile the information to the best of our ability and understanding. Suggestions to improve the publication are always welcome with folded hands. This information has been shared only for educational purposes for the benefit of all.



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