

# Union Budget

2026



BHUTA  
SHAH  
& CO  
LLP

CHARTERED  
ACCOUNTANTS

# Key Policy Announcements

## SME Growth Fund

Set-up a dedicated Rs. 10,000 crore SME growth fund to create future champions

## Investment Limit for PROIs under the PIS

Individual limits increased from 5% to 10% and cumulative limits from 10% to 24%

## FEMA (NDI) Rules

To create a more contemporary, user friendly framework for foreign investments

## REIT for CPSEs

To set-up REITS specifically dedicated for CPSEs to recycle and monetize their underutilized land and real estate assets

## Thrust on sunrise sectors

Rs. 20,000 Cr outlay for Carbon Capture  
Rs. 40,000 Cr for Semi Conductors  
Rs. 10,000 Cr Bio Pharma Shakti Program for pharma mfg.



## Key Takeaway

While we await to see the amended FEMA(NDI) Rules on PROI coverage under PIS, the Budget Speech appears to indicate that this framework may be expanded from earlier NRI/OCBs only to now all Persons Resident Outside India, thereby enhancing the scope as well as individual/accumulated quantum.

- PROI - Person Resident Outside India
- PIS = Portfolio investment scheme
- CPSE - Central Public Sector Enterprises

# Attracting the foreign investments

## Data Centers

Foreign companies procuring data centre services from specified data centres will be exempt from tax on income accruing or arising or deemed to accrue or arise in India, provided services to Indian users are routed through an Indian reseller for a period up to tax year ending 31 March 2047. In respect of foreign companies providing cloud services to customer in India through a related Indian entity, safe harbour provision of cost plus 15% is proposed.

## Exemption on Foreign-Sourced Income

Non-resident individual rendering services under any notified Central government schemes will be exempt from tax on foreign-sourced income for five consecutive years, if such individual was a non-resident for the preceding five years. This applies from tax year 2026–27, subject to fulfilment of specified conditions.

## Exemption to Foreign Companies

Foreign companies supplying capital goods, equipment, or tooling to Indian contract manufacturers engaged in manufacturing of electronic goods will be exempt from tax on such income for a period up to the tax year 2030–31.

# Budget at a Glance – Tax Proposals

- ❖ Clear roadmap for implementation of new Income Tax Act, 2025
- ❖ MAT Regime overhauled under the new tax regime
- ❖ Buyback of Shares rationalised
- ❖ Reduction in TCS from 5% to 2% on education and foreign travel
- ❖ Relief for misreporting or inaccuracies in the return
- ❖ Resolution of legacy litigations arising from procedural issues
- ❖ Rationalization of penalty and prosecution provisions
- ❖ STT increased on options and futures

# MAT - Paradigm change in approach



MAT applicable to the companies opting for the old tax regime would be treated as final tax i.e no new MAT credit would be allowed to be created.



The MAT rate is proposed to be reduced from 15% to 14% of Book Profit w.e.f. Tax Year 2026-27.



The carried forward MAT credit of the earlier years will be allowed to be set-off only in the New Regime:

- ❖ Limited to 25% of tax liability for domestic companies in a Tax Year, and
- ❖ for foreign companies, only to the extent the normal tax exceeds MAT.



# Illustrative MAT Computation Scenarios

## Case 1: MAT is higher than Normal Tax - for FY 2025-26 (AY 2026-27)

Particulars		New regime opted	Old regime opted
		Amount (Rs.)	Amount (Rs.)
Book Profit		10,00,00,000	10,00,00,000
Normal taxable income		5,00,00,000	4,00,00,000
Normal Tax (5,00,00,000 * 25.17% or 4,00,00,000*30%)	A	1,25,85,000	1,20,00,000
MAT (10,00,00,000 * 14%)	B	NA	1,40,00,000
Tax Payable (Higher of A or B)		1,25,85,000	1,40,00,000
MAT credit generated		NIL	20,00,000

## Case 2: MAT higher than Normal Tax - for Tax Year 2026-27

Particulars		New regime opted	Old regime opted
		Amount (Rs.)	Amount (Rs.)
Book Profit		10,00,00,000	10,00,00,000
Normal taxable income		5,00,00,000	4,00,00,000
Normal Tax (5,00,00,000 * 25.17% or 4,00,00,000*30%)	A	1,25,85,000	1,00,68,000
MAT (10,00,00,000 * 14%)	B	NA	1,40,00,000
Tax Payable (Higher of A or B)		1,25,85,000	1,40,00,000
MAT credit generated		NIL	NIL

## Set-off of Brought Forward MAT Credit (on shift from old regime to New Regime) - During FY 2026-27 (AY 2027-28)

Particulars		New regime opted	Old regime opted
		Amount (Rs.)	Amount (Rs.)
Brought forward MAT credit	A	50,00,000	50,00,000
Book Profit		-	-
Normal taxable income		1,00,00,000	1,00,00,000
Normal Tax (1,00,00,000 * 25.17% or 1,00,00,000*30%)		25,17,000	25,17,000
Maximum set-off allowed (Rs.1,20,00,000 * 25%) **		6,29,250	-
MAT credit allowed to be set off	B	6,29,250	-
MAT credit to be carried forward	(A-B)	43,70,750	50,00,000

\*\*Please note that in the case of Foreign companies (to whom MAT applies), the difference between tax payable as per normal provisions of the Act and MAT would be allowed as MAT credit i.e. 25% condition would not apply.

# Ease of doing business for Digital Sector



Activities of (i) software development, (ii) IT enabled services, (iii) knowledge process outsourcing (KPO) and (iv) contract R&D services relating to software development, proposed to be clubbed under a single category of IT Services



Safe Harbour for the IT services proposed to be reduced to 15.5%. Further, threshold revenue for applying safe harbour provisions for IT services substantially increased to Rs. 2,000 crore from Rs. 300 crores



It is proposed to fast track the Unilateral APA process for IT services and endeavour to conclude it within a period of 2 years – Extendable by upto 6 months at tax payer's request.



In respect of foreign companies providing cloud services to customer in India through a related Indian entity, safe harbour provision of cost plus 15% is proposed.

In case of a non-resident tax payer warehousing component for electronic manufacturing in a bonded warehouse, safe harbour provisions of 2% of the invoice value is proposed

# Rationalization of TP provisions



Time limit for the TPO to pass order under Section 166 of the Act has been classified as 1 month prior to the month in which the period for passing the assessment or reassessment order expires.



In respect of any APA signed by the tax payer, it is proposed to enable it's AE to file a return/ modified return in respect of tax years covered by APA within 3 months from the end of the month in which the APA is entered.



Penalty under Section 447 for failure to furnish report under Section 172 proposed to be converted to a fee under Section 428(4). A graded fee of Rs. 50,000 and 1,00,000 depending upon the period of delay would be applicable



The definition of "Accountant" for the purpose of Safe Harbour Rules proposed to be rationalized to motivate home-grown accounting and advisory firms to become global leaders.



Presently, there is litigation on the time limit for completion of assessment for the matters referred to DRP. Proposed to insert clarification w.e.f 1 Apr' 09 to provide that provisions of Sec. 286 govern the time limit upto issuance of draft assessment order & time period available to pass the final assessment order shall be governed by Sec. 275.

# Buy Back of shares – Again taxed as Capital Gains

Presently, share buyback consideration is taxed as deemed dividend in the hands of shareholders at normal tax rates with the cost of acquisition being allowed as a capital loss; these create rate, timing and classification mismatch.

In order to do away with these mismatches, now such share buybacks is taxed as capital gains for all shareholders taxable @ upto 12.5%/35% for LTCG/STCG respectively. However, for Promoters (including shareholders holding >10%), the effective tax rate (“ETR”) on share Buyback is higher as per the table below:

Particulars  (Figures in %)	Promoters (Holding>10%)								
	Domestic Companies			Others			Foreign Companies		
	Base Tax	Addl Tax	ETR	Base Tax	Addl Tax	ETR	Base Tax	Addl Tax	ETR
<b>LTCG</b>									
Listed shares	12.5	9.5	22	12.5	17.5	30	12.5	17.5	30
Unlisted Shares	12.5	9.5	22	12.5	17.5	30	12.5	17.5	30
<b>STCG</b>									
Listed shares	20	2	22	20	10	30	20	10	30
Unlisted Shares	22/30	-	22/30	30	-	30	35	-	35

*ETR reflects the Effective Tax Rate on buyback for the taxpayer.*

*For Domestic Companies and Individuals, the ETR will depend on their opted regime/ slab rates.*

*The base rates considered above are the maximum applicable rates.*

# Is buy-back providing tax arbitrage?

## I. Minority ( $\leq 10\%$ Shareholders)

Description	Tax Rate assumed	Amt	
Buyback Consideration		1000	
COA - Original cost of investment		500	
Net Buyback Income		500	
Existing Buyback Tax Regime	Tax Rate assumed	Resident	Non-Resident
LTCG	12.50%	500.00	-500.00
Buyback consideration $\rightarrow$ dividend	30%/5% (DTAA)	300	50
Tax benefit of Capital Loss Adj.	12.50%	-62.5	-62.5
<b>Net Tax Impact</b>		<b>237.5</b>	<b>-12.5</b>
New Buyback Tax Regime	Tax Rate assumed	Resident	Non-Resident
LTCG	12.50%	62.50	62.50
Buyback consideration $\rightarrow$ dividend	30%/5% (DTAA)	0	0
Tax benefit of Capital Loss Adj.	12.50%	0	0
<b>Net Tax Impact</b>		<b>62.50</b>	<b>62.50</b>
<i>Savings compared to Existing Regime</i>		74%	-600%

## II. Promoter ( $>10\%$ Shareholders)

New Buyback Tax Regime	Tax Rates Assumed	Domestic Company		
		Base Rate	Addl Tax	ETR
LTCG	12.5%+9.5%=22%	62.50	47.50	110.00
Buyback consideration $\rightarrow$ dividend	30%	0	0	0
Tax benefit of Capital Loss Adj.	12.50%	0	0	0
<b>Net Tax Impact</b>		<b>62.50</b>	<b>47.50</b>	<b>110.00</b>
<i>Savings compared to Existing Regime</i>				54%

New Buyback Tax Regime	Tax Rates Assumed	Other Residents/Non-resident Individuals		
		Base Rate	Addl Tax	ETR
LTCG	12.5%+17.5%=30%	62.5	87.5	150
Buyback consideration $\rightarrow$ dividend	30%	0	0	0
Tax benefit of Capital Loss Adj.	12.50%	0	0	0
<b>Net Tax Impact</b>		<b>62.5</b>	<b>87.5</b>	<b>150</b>
<i>Savings compared to Existing Regime</i>				37%

New Buyback Tax Regime	Tax Rates Assumed	Foreign Companies		
		Base Rate	Addl Tax	ETR
LTCG	12.5%+17.5%=30%	62.5	87.5	150
Buyback consideration $\rightarrow$ dividend	30%	0	0	0
Tax benefit of Capital Loss Adj.	12.50%	0	0	0
<b>Net Tax Impact</b>		<b>62.5</b>	<b>87.5</b>	<b>150</b>
				-1300%

# Is buy-back providing tax arbitrage?

## III. STCG - Tax on Share Buyback for Promoter (>10% Shareholders)

Listed Shares					Unlisted Shares			
New Buyback Tax Regime	Tax Rates Assumed	Domestic Company			Tax Rates Assumed	Domestic Company		
		Base Rate	Addl Tax	ETR		Base Rate	Addl Tax	ETR
STCG	20%+2%=22%	100.00	10.00	110.00	30%+0%=30%	150.00	-	150.00
Buyback consideration → dividend	30%	0	0	0	30%	0	0	0
Tax benefit of Capital Loss Adj.	30.00%	0	0	0	30.00%	0	0	0
<b>Net Tax Impact</b>		<b>100.00</b>	<b>10.00</b>	<b>110.00</b> 54%	<b>150.00</b>	<b>-</b>	<b>150.00</b> 37%	

New Buyback Tax Regime	Tax Rates Assumed	Other Residents		
		Base Rate	Addl Tax	ETR
STCG	20%+10%=30%	100	50	150
Buyback consideration → dividend	30%	0	0	0
Tax benefit of Capital Loss Adj.	30.00%	0	0	0
<b>Net Tax Impact</b>		<b>100</b>	<b>50</b>	<b>150</b> 37%

Tax Rates Assumed	Other Residents		
	Base Rate	Addl Tax	ETR
30%+0%=30%	150	0	150
30%	0	0	0
30%	0	0	0
	150	0	150 37%

New Buyback Tax Regime	Tax Rates Assumed	Foreign Cos		
		Base Rate	Addl Tax	ETR
STCG	20%+10%=30%	100	50	150
Buyback consideration → dividend	30%	0	0	0
Tax benefit of Capital Loss Adj.	30.00%	0	0	0
<b>Net Tax Impact</b>		<b>100</b>	<b>50</b>	<b>150</b> -1200%

Tax Rates Assumed	Foreign Cos		
	Base Rate	Addl Tax	ETR
35%+0%=35%	175	0	175
30%	0	0	0
35.00%	0	0	0
	<b>175</b>	<b>0</b>	<b>175</b> -1400%

# Other Direct Tax Proposals (1/2)

## **Amendment of Tax Rate and Penalty Framework for Unexplained Income under Section 195:**

It is proposed to rationalise taxation of income referred to in Sections 102 to 106 of the Act by reducing the tax rate under Section 195 from 60% to 30% of the said income.

Further, the penalty under Section 443 of the Act is proposed to be subsumed with the provisions of penalty framework for misreporting under Section 439 of the Act .

Thus, penalty applicable to the income referred under Section 102 to 106 of the Act shall stand increased from 10% of the tax payable to 60% of the said income.

## **Block Assessment:**

Block assessment in case of third persons has been restricted to the period to which the incriminating material pertains and is not subjected to undergo mandatory all 6 years.

The time limit for completion of search block assessment to has been increased to 18 months from the end of the quarter of initiation of search, from present 12 months.

It is proposed to pass the assessment order and penalty order concurrently at the time of assessment itself instead of conducting 2 separate proceedings.

# Other Direct Tax Proposals (2/2)

- ❖ **Exemption for Sovereign Gold Bond (“SGB”) – Rationalization of Exemption Provisions**
- ❖ **Interest expenses no longer allowed as tax deduction from dividend income**
- ❖ **Employee contribution deductions relaxed – Time limit for payment extended for payment of contribution till due date of filing return of income**
- ❖ **Presumptive taxation regime in respect of units set up in SEZ**
- ❖ **Amendment of Tax Rate and Penalty Framework for Unexplained Income under Section 195 – Tax rate reduced from 60% to 30% and penalty provisions made stringent**
- ❖ **Legacy Jurisdictional issues resolved with retrospective effects including burning issues such as JAO vs FAO, DIN, exclusion of time period before DRP for Section 153**

# Financial Services

## Key Proposals

### STT Rates

STT to increase on futures transactions to 0.05% and on options transactions to 0.15 %

Black Money Act  
Relief from penalty and prosecution under Black Money Act for small tax payers

IFSC Exemption  
Tax exemption for IFSC units & OBU is extended from 10 years to 20 years Thereafter, IFSC unit's business income would be taxable only at 15%

Declaration to depository  
Investors can provide a single declaration to the depository for non deduction of tax.  
Depositories in turn will share the information with the relevant stakeholders



### Key Takeaway

IFSC Exemption further strengthens GIFT IFSC as the hub for global investments and operations thereby making it more competitive with other financial hubs like Singapore & Dubai

- Earlier STT on future transactions was 0.02 % and option premium and option exercise was 0.1% and 0.125% respectively
- Earlier IFSC unit exemption was available for 10 years out of 15 years and OBUs was 10 consecutive years
- PROI = Person Resident Outside India & PIS = Portfolio investment scheme
- OBU – Offshore Banking Unit



# **Indirect Tax Proposals**

# Customs Proposals

1

Vuntary penalty paid for closure of litigation proceedings within 30 days of issuance of notice, will be deemed to be a 'charge' against a 'penalty'

2

Harvests by an Indian-flagged fishing vessel beyond India's territorial waters and brought into India will be exempt from customs duty, and if landing at a foreign port, will be treated as export from India

3

Validity of Advance Ruling has been increased from 3 years to 5 years. Existing advance rulings can also be extended up to 5 years

4

Customs duty deferral benefit extended to certain eligible importer manufacturer; due date for payment of duty extended from bi-monthly to monthly

5

A special one-time measure is proposed to facilitate sales by eligible SEZ manufacturing units to the Domestic Tariff Area (DTA) at concessional customs duty rates – details yet to be announced

6

Simplified procedure for movement of goods between warehouses, not requiring prior permission of the proper officer

# Customs Proposals

7

Shipments will be subjected to a non-intrusive scanning for faster clearances

8

Customs compliances to have a single-window for all agencies involved, through a pan-India integrated platform

9

Courier exports – value cap of INR 10 lacs removed, to encourage e-commerce

10

Duty on import of personal goods reduced from 20% to 10%, but with an additional levy of Social Welfare Surcharge

11

Duty-free limits raised to ₹75,000 for residents and ₹25,000 for foreign tourists. Stricter scrutiny and clear definitions introduced for high-value electronics like air fryers and gaming consoles. Transfer of residence benefits now require strict stay-duration compliance, with shortfalls attracting duty plus interest. Re-importing personal items duty-free now strictly permitted only if they were declared at the time of departure

12

Duty exemption extended to 17 additional drugs for cancer care, and for additional 7 identified rare diseases

# Customs Proposals

## Customs duty rate amendments – Notification No 45/2025-Cus dated 24<sup>th</sup> October 2025

- 102 exemptions/ concessional rates are being extended up to 31<sup>st</sup> March 2028 – gold ores, specified bunker fuels, wind operated electricity generator components, manufacture of lithium-ion cells, hospital equipment, MRO related activities, etc
- 22 exemptions/ concessional rates are being lapsed on their end date of 31<sup>st</sup> March 2026 – naphtha for manufacture of fertilizers, parts of video games
- 14 unconditional exemptions (which included 5 redundant exemption) are being lapsed effective from 2<sup>nd</sup> February 2026 – coffee roasting machines, CD-Roms, ammonium phosphate, etc
- Sunset clause is being removed from 3 unconditional exemption entries for certain goods in Chapter 89
- Sunset clause of 31<sup>st</sup> March 2027 is being prescribed for 4 conditional exemption entries covering gold dore bars, silver dore bars, specified forms of gold, etc

# Customs Proposals

## Customs duty rate amendments – Notification No 36/2024-Cus dated 23<sup>rd</sup> July 2024

- 22 exemption entries are being omitted, being redundant, There will no change in the effective rate of basic customs duty

## Other tariff related amendments

- Validity of 4 exemption notifications is being extended up to 31<sup>st</sup> March 2028, including – precious stones, jobbing related imports, copper cathodes and wire products, and gold and silver recovered from copper anode slime
- Customs duty on dutiable goods imported for personal use reduced to 10% (existing 20% under Chapter 9804)
- New tariff entries proposed – includes, specific organic chemicals, battery separators, parts of transmission apparatus, etc
- Changes to basic customs duty proposed – Monazite, Sodium Antimonate, 17 new drugs/ medicine, generation of nuclear power, manufacture of microwave ovens, etc
- Exemption extended for capital goods used in manufacturing of Lithium-Ion cells for Battery Energy Storage Systems, and for MRO related activities

## Intermediary services

- Provision deeming ‘place of supplier’ as the place of supply, now omitted
- Intermediary services provided to overseas recipients can now qualify as ‘exports’, subject to other conditions
- Inversely, intermediary services received from outside India liable to GST under reverse charge

## Refund – Inverted Duty Structure

- Provisional refund benefit extended to unutilized ITC arising from inverted duty structure
- Earlier refunds were granted only after final verification
- This amendment enables faster release of substantial refund amount

## Post-Sale discounts

- Valuation provisions aligned with the credit note mechanism
- Post-supply discounts allowed to be excluded from taxable value even without prior agreement
- Supplier required to issue a credit note for the discount
- Recipient required to reverse proportionate ITC attributable to the discount

## National Appellate Authority

- The Government may authorize an existing authority including a Tribunal constituted under any law for the time being in force, to hear appeals till the National Appellate Authority for Advance Ruling is constituted.

Thank You



# OUR PRESENCE

## Mumbai

### Head Office'

2<sup>nd</sup> Floor Bajaj Bhawan, Jamnalal Bajaj Marg, Nariman Point, Mumbai – 400 021.

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### Andheri

3<sup>rd</sup> & 5<sup>th</sup> Floor, Solitaire Corporate Park no. IV, Andheri Kurla Road, Chakala, Andheri East, Mumbai – 400 093.

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### Thane

1501 – 1502, Oriana Business Park, Wagle Estate, Thane West, Mumbai – 400601 Ahmedabad

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### Ahmedabad

813, Shree Balaji Heights, Besides IDBI Bank, C G Road, Ahmedabad – 380 006.

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### Pune

501-502, Building # B3, Pride Kumar Senate II, CTS # 970, Senapati Bapat Road, Shivajinagar, Pune- 411 016.

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### New Delhi

E-6, First floor, Connaught Place, New Delhi – 110 001.

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### Jaipur

309-B, Windsor Plaza, Sansar Chandra Road, Jaipur, Rajasthan – 302 001.

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### Bengaluru

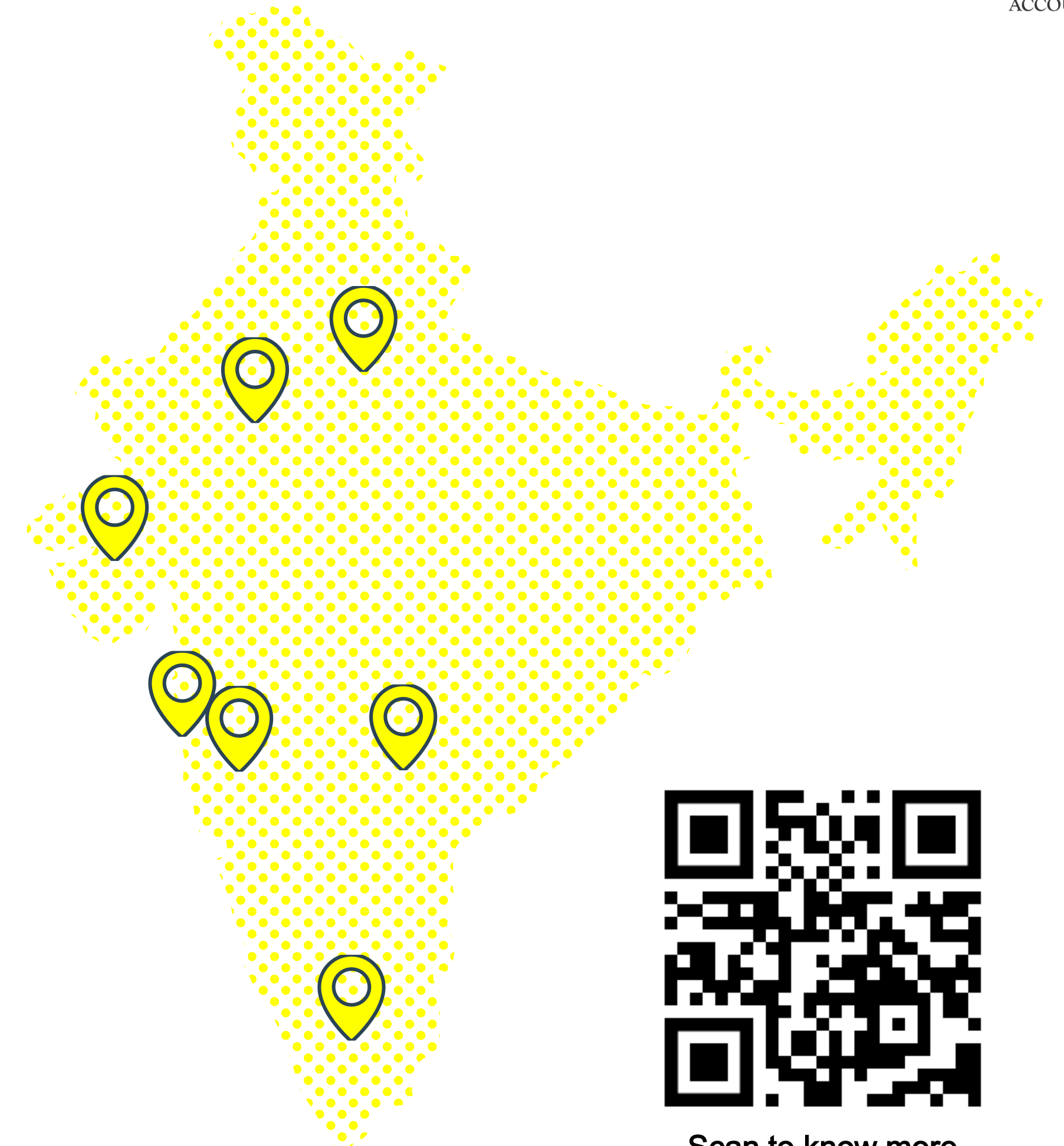
151, 5th Floor, Moksha Mansion, Sarjapur Road, 1st Block Koramangala, Bengaluru, Karnataka – 560 034.

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### Hyderabad

VVC Konark, 2nd Floor, Plot 5, Hitech City, Jubilee Enclave, Hyderabad, Telangana - 500 081.

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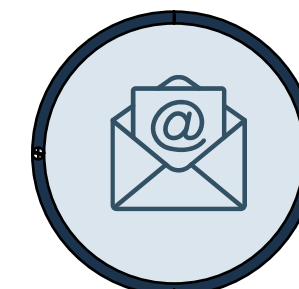


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