

FINANCE BILL, 2026

Key Tax Proposals Explained



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Direct Taxes

Shift to Income-tax Act, 2025

The Finance Bill, 2026 furthers the transition from the Income-tax Act, 1961 to the Income-tax Act, 2025. Several provisions have been re-numbered and restructured, though the underlying concepts may be familiar to taxpayers.

Legislative intent

The amendments focus on simplifying compliance, rationalising punitive provisions, reducing litigation, and promoting voluntary tax compliance through self-disclosure.



MEASURES TO ENCOURAGE VOLUNTARY COMPLIANCE AND REDUCE LITIGATION

2.1 Rationalisation of Tax on Unexplained Income (Sections 102 to 106)

- **Nature of income covered (Sections 102–106)**

These sections deal with unexplained cash credits, unexplained investments, unexplained money or assets, unexplained expenditure, and certain hundi transactions, where the taxpayer fails to satisfactorily explain the source.

- **Earlier position**

Such income was taxed at a flat rate of 60%, along with a separate penalty, resulting in an effective tax burden exceeding normal rates by a significant margin.

- **Amendment proposed by Finance Bill, 2026**

The tax rate on income covered under Sections 102 to 106 is reduced to 30%, bringing it broadly in line with normal tax rates applicable to individuals and entities.

- **Withdrawal of separate penalty**

The specific penalty linked to these sections is removed. Any penalty, where applicable, will now be governed by the general penalty provisions relating to under-reporting or misreporting of income.

- **Relief for voluntary disclosure**

Where such income is voluntarily disclosed in the return of income, no penalty shall be levied, thereby encouraging honest self-reporting.

2.2 Expanded Immunity from Penalty and Prosecution (Section 270AA equivalent under IT Act, 2025)

- **Earlier scope of immunity**

Immunity from penalty and prosecution was largely restricted to cases of under-reporting and did not extend to cases classified as misreporting.

- **Expanded scope under Finance Bill, 2026**

Immunity is now available even in cases of misreporting, subject to payment of prescribed additional income-tax and provided no appeal is filed against the assessment or reassessment order.

- **Time limit for application**

An application for immunity must be made within one month from the end of the month in which the assessment order is received.

- **Practical significance**

This encourages early closure of disputes and avoids prolonged litigation and prosecution exposure.



2.3 Single Composite Order for Assessment and Penalty (Relevant Penalty Provisions under IT Act, 2025)

- **Earlier procedural structure**

Assessment proceedings and penalty proceedings were conducted independently, often resulting in multiple orders and parallel appeals.

- **New mechanism introduced**

In cases involving misreporting of income, the Assessing Officer may pass a single composite order covering both assessment and penalty.

- **Taxpayer safeguards**

The law mandates that an opportunity of being heard must be provided before passing such composite order.

- **Effective date**

Applicable to assessments completed on or after 1 April 2027.

2.4 Reduction in Amount to deposited for stay of demand

- Presently, a taxpayer can obtain a stay of demand on an order which is in appeal by paying 20% of the amount payable under the Act (including the amount of tax, interest, fee, penalty, or any other sum).
- The stay can now be availed by paying only 10% of the amount of tax.

REFORMS IN RETURN FILING – REVISED & UPDATED RETURNS

3.1 Extension of Time Limit for filing of Returns by non-audit Businesses and Trusts

• Earlier timeline

Under the pre-Finance Bill, 2026 framework, the due date for filing return of income for taxpayers not liable to tax audit - including individuals, HUFs, firms, LLPs, and non-audit trusts - was 31st July of the relevant assessment year

• Revised timeline

The Finance Bill, 2026 proposes to extend the due date for filing returns for non-audit cases, including non-audit trusts, by one month.

Category of taxpayer	Earlier due date	Proposed due date
Non-audit businesses (Individuals, HUFs, Firms, LLPs)	31 st July	31 August
Trusts not liable to audit	31 st July	31 August

The amendment seeks to realign statutory timelines with practical compliance realities, without affecting audit cases or transfer pricing cases, whose due dates remain unchanged.



3.2 Extension of Time Limit for Filing Revised Return (Relevant Return Filing Provisions under IT Act, 2025)

- **Earlier timeline**

Revised returns were permitted to be filed within nine months from the end of the relevant tax year.

- **Revised timeline**

The Finance Bill, 2026 extends this period to twelve months, allowing taxpayers additional time to identify and correct genuine errors.

- **Introduction of graded fee**

A fee is proposed where the revised return is filed after nine months. The fee is computed with reference to the total income declared in the revised return.

- **Policy rationale**

The measure balances flexibility for taxpayers with the need to discourage undue delays in compliance.

3.3 Expansion of Scope of Updated Return (Section 263 of the Income-tax Act, 2025)

- **Concept of updated return (Section 263)**

An updated return enables voluntary disclosure of income that was omitted or incorrectly reported in an earlier return.



- **Extended filing window**

Updated returns may be filed up to forty-eight months from the end of the relevant financial year.

- **Additional tax structure**

Additional income-tax is payable at graduated rates of 25%, 50%, 60% or 70%, depending on the delay in filing the updated return.

- **Relaxation of earlier restrictions**

Updated returns are now permitted even if:

- the originally declared loss is reduced, or
- the return is filed after initiation of reassessment proceedings, subject to prescribed conditions.

- **Protection from penalty**

Income disclosed through eligible updated returns is not treated as under-reported or misreported for penalty purposes.

RATIONALISATION OF CAPITAL AND INVESTMENT TAXATION

4.1 Taxation of Buy-back of Shares (Capital Gains Provisions)

- **Earlier tax treatment**

Buy-back proceeds were taxed as dividend income, while the cost of acquisition of shares resulted in a capital loss.

- **Amended treatment under Finance Bill, 2026**

Buy-back consideration is now proposed to be taxed under the head "Capital Gains", aligning taxation with economic substance.

- **Promoter-specific tax caps**

- Domestic company being promoter: effective tax rate capped at 22%.
- Other promoters (individuals, firms, LLPs): effective tax rate capped at 30%.

- **Effective applicability**

Applicable from Tax Year 2026-27 onwards.

SIMPLIFICATION OF TAX DEDUCTION AND COLLECTION (TDS / TCS)

5.1 Removal of TAN Requirement for Property Purchases from Non-Residents (Relevant TDS Provisions)



- **Earlier compliance requirement**

Resident buyers were required to obtain a Tax Deduction Account Number (TAN) for deducting tax on purchase of property from non-residents.

- **Simplification introduced**

TAN requirement is removed and tax can be deducted using a PAN-based challan-cum-statement.

- **Benefit to taxpayers**

This reduces procedural burden, especially for individual buyers.

- **Protection from penalty**

From 1 October 2026.

5.2 Simplified Process for Lower or Nil TDS Certificates (Relevant Certificate Provisions)

- **Earlier system**

Applications were made before the jurisdictional Assessing Officer, often involving delays.

- **New electronic mechanism**

Small taxpayers may apply electronically to a prescribed authority, resulting in quicker processing.

- **Objective**

To minimise physical interface and ease compliance.

5.3 Centralised Investor Declarations through Depositories

- **Issue under earlier regime**

Investors were required to submit declarations separately to each deductor or payer.

- **New facility introduced**

A single declaration may now be filed with the depository for dividend, interest and mutual fund income.

- **Effective date**

From 1 April 2027

5.4 Change in Rates of TCS

Finance Bill has proposed changes in rates at which TCS is collected on certain transactions. The details of changes are as follows:

S.No.	Nature of receipt	Current Rate	Proposed Rate
1.	Sale of alcoholic liquor for human consumption.	1%	2%
2.	Sale of tendu leaves	5%	2%
3.	Sale of scrap	1%	2%
4.	Sale of minerals, being coal or lignite or iron ore	1%	2%
5.	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding ₹ 10 lakh -	(a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.	(a) 2% for purposes of education or medical treatment; (b) 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.	(a) 5% of amount or aggregate of amounts up to ten lakh rupees; (b) 20% of amount or aggregate of amounts exceeding ten lakh rupees.	2%

5.5 Including supply of manpower in the definition of work

Section 393(1) of the Income-tax Act, 2025 prescribes different TDS rates for payments to contractors and for professional fees. The Finance Bill, 2026 clarifies that “supply of manpower” shall be treated as “work” for TDS purposes.

Accordingly, TDS on manpower supply shall be deducted under Section 393(1) [Table: Sl. No. 6(i)/(ii)] at 2% where the payee is a resident individual or HUF and 1% in other cases, and not at 10% applicable to professional fees.

EMPLOYER AND BUSINESS-FRIENDLY MEASURES

6.1 Deduction of Employee Contributions to PF and ESI (Relevant Deduction Provisions)

- **Earlier restriction**

Deduction was allowed only if employee contributions were deposited within statutory due dates under respective laws.

- **Amendment proposed**

Deduction is allowed if such contributions are deposited up to the due date of filing the income-tax return.

- **Amendment proposed**

Provides relief from disallowances arising due to minor delays and aligns tax provisions with business realities.

SEARCH, ASSESSMENT AND PROCEDURAL RATIONALISATION

- **7.1 Rationalisation of Search and Block Assessment Provisions (Relevant Search Provisions)**

- **Earlier block assessment framework**

Block assessments often covered extended periods, leading to prolonged disputes.

- **Revised framework**

The block period is now rationalised based on the actual years to which undisclosed income relates, particularly in cases involving persons other than the searched person.

- **Revised time limit**

The time limit for completion of block assessments is extended to eighteen months from the date of initiation of search.



RATIONALISATION OF PENALTIES AND PROSECUTION

8.1 Relief under the Black Money (Undisclosed Foreign Income and Assets) Act, 2015

- **Threshold for prosecution**

No prosecution shall be initiated where the aggregate value of undisclosed foreign assets (other than immovable property) does not exceed ₹20 lakh.

- **Exception for immovable property**

Undisclosed foreign immovable property continues to attract penalty and prosecution irrespective of value.

- **Effective date**

Applicable retrospectively from 1 October 2024.

8.2 Enhancement of General Penalty Threshold (Section 466 of the Income-tax Act, 2025)

- **Change introduced**

The maximum penalty for failure to furnish prescribed information is increased from ₹1,000 to ₹25,000.

- **Rationale**

To ensure greater seriousness in compliance while keeping penalties proportionate.

8.3 Penalty for Non-reporting of Crypto-asset Transactions (Relevant Reporting Provisions)

- **New reporting obligation**

Prescribed reporting entities are required to furnish accurate information relating to crypto-asset transactions.

- **Penalty for non-compliance**

Penalty shall be levied for failure to furnish or for furnishing inaccurate information.

MINIMUM ALTERNATE TAX (MAT) PROPOSALS

9.1 Continuation & Rationalisation of MAT Provisions (Relevant MAT Provisions under Income-tax Act, 2025)

- **Concept of Minimum Alternate Tax (MAT)**

Minimum Alternate Tax is a mechanism under which companies are required to pay a minimum level of tax on their book profits, even where tax payable under normal provisions is lower due to deductions, exemptions or incentives.

- **Earlier position**

MAT provisions continued largely on the lines of the earlier Income-tax Act, 1961 regime, with MAT liability computed at the rate of 15% on book profits and credit allowed to be carried forward for set-off against future normal tax liability.



Corporate Tax Provisions

6.1 Safe Harbour Rates and threshold for safe harbour increased:

- All IT-related services (software development, IT-enabled services, KPO, R&D services) clubbed under "Information Technology Services" with common safe harbour margin of 15.5%.
- Threshold for safe harbour increased from ₹300 Cr to ₹2,000 Cr. Safe harbour approval automated, valid for 5 years at taxpayer's discretion.
- Unilateral APA process for IT services to be fast-tracked within 2 years, extendable by 6 months.
- Modified returns facility under APA extended to associated entities.

6.2 Interest deduction for dividend (Section 93 of the Income-tax Act, 2025)

- At present, Section 93 of the Income-tax Act, 2025 allows deduction of interest expenditure incurred for earning dividend or mutual fund income, limited to 20% of such gross income.
- The Finance Bill, 2026 proposes to completely disallow deduction of any interest expenditure incurred for earning dividend income or income from mutual fund units taxable under the head "Income from other sources". This amendment will apply from Tax Year 2026–27 onwards.

6.3 Integration of ICDS and IndAS

- The Finance Minister has proposed the constitution of a Joint Committee of the Ministry of Corporate Affairs (MCA) and the Central Board of Direct Taxes (CBDT) to incorporate the requirements of Income Computation and Disclosure Standards (ICDS) into Indian Accounting Standards (Ind AS). As a result, the separate ICDS-based accounting framework will be done away with from Tax Year 2027–28 onwards, reducing duplication and reconciliation differences.



GST

1. Rationalisation of Valuation Provisions – Section 15

Under the existing provisions of Section 15(3) of the CGST Act, post-sale discounts were permitted to be excluded from the value of supply only if such discounts were expressly agreed upon at or before the time of supply. The proposed amendment removes this condition.

Pursuant to the amendment, value adjustments on account of discounts—whether agreed prior to supply or extended subsequently—may now be effected through the issuance of credit notes under Section 34 of the CGST Act. Corresponding amendments have also been proposed in Section 34 to facilitate this change, thereby providing greater flexibility in commercial pricing arrangements.



2. Expansion and Rationalisation of Refund Provisions – Section 54

Section 54(6) of the CGST Act presently provides for grant of provisional refund up to 90% of the refund claimed in cases of zero-rated supplies. The proposed amendment extends this benefit to refund claims arising due to an inverted duty structure.

Further, the existing restriction that prevents sanction of refunds where the amount involved is less than INR 1,000 is proposed to be removed, enabling refund of even smaller eligible amounts

3. Interim Mechanism for Resolution of Conflicting Advance Rulings – Sec 101A

Section 101A of the CGST Act provides for the constitution of the National Appellate Authority for Advance Ruling (NAAAR) to resolve conflicts arising from advance rulings issued by authorities of two or more States.

The proposed amendment inserts a new sub-section empowering any existing appellate authority, including a tribunal, to hear such matters until the NAAAR is formally constituted, based on the recommendation of the GST Council. This amendment is proposed to take effect from 1 April 2026.

4. Alignment of Place of Supply for Intermediary Services – Section 13

Clause (b) of sub-section (8) of Section 13 of the IGST Act, which prescribed a special place of supply rule for intermediary services, is proposed to be omitted in line with the recommendations of the 56th GST Council Meeting.

Consequently, the place of supply for intermediary services will be determined based on the location of the recipient. This change effectively accords export status to intermediary services supplied to recipients located outside India, resulting in a significant relief for service providers.

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