

Katalyst Kaleidoscope

February 2026: The Union Budget 2026-27

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A. Budget Overview

Union Budget 2026–27 reinforces a capex-led growth strategy while maintaining fiscal discipline in an increasingly uncertain global environment. The Budget seeks to balance growth acceleration with household welfare, business support and inclusive development, signalling continuity and policy stability.

- a. **Strategic Framework – Three “Kartavyas”:** The Budget is anchored around three core “kartavyas” or duties: accelerating and sustaining economic growth through higher productivity and competitiveness; fulfilling aspirations of citizens by strengthening household capacity and positioning people as partners in India’s growth journey; and ensuring inclusive development across regions, communities and sectors in line with the principle of Sabka Saath, Sabka Vikas. This framework reflects the Government’s intent to combine growth with equity and broad-based participation.
- b. **Infrastructure and Capital Expenditure:** A key highlight is the continued emphasis on infrastructure-led growth. Capital expenditure has been increased to a record INR 12.2 lakh crore, up from INR 11.2 lakh crore in FY 2025–26, marking the highest-ever allocation. Spending is focused on roads, railways, metro projects, ports, logistics, urban infrastructure and connectivity. To encourage private participation and improve execution certainty, an Infrastructure Risk Guarantee Fund has been proposed to provide partial credit guarantees during the construction phase.
- c. **Manufacturing and Strategic sectors:** Manufacturing remains central to the growth strategy, with targeted support for high-potential and strategic sectors. The Budget introduces the Biopharma SHAKTI initiative with an outlay of INR 10,000 crore over five years to position India as a global biopharma manufacturing hub. Semiconductor manufacturing is strengthened through India Semiconductor Mission 2.0 and expanded support for electronics components. Dedicated corridors for rare earths and critical minerals are proposed in mineral-rich states, while the textile sector receives integrated support covering fibres, clusters, sustainability, skilling and mega textile parks, with a focus on employment generation.
- d. **MSME Growth and Liquidity Support:** MSMEs receive focused attention through a three-pronged approach covering equity, liquidity and professional support. A INR 10,000 crore SME Growth Fund is proposed to create “Champion MSMEs”, along with a INR 2,000 crore top-up to the Self-Reliant India Fund to support micro enterprises. Liquidity access is further strengthened by deepening the TReDS platform through mandatory adoption by CPSEs, credit guarantee support, integration with GeM and development of a secondary market for MSME receivables, aimed at improving cash flows and reducing financial stress.

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- e. **Urban Development and Liquidity Support:** Urban development and regional growth are reinforced through the creation of City Economic Regions, with an allocation of INR 5,000 crore per region over five years. These are intended to unlock agglomeration-led growth in Tier II and Tier III cities. In addition, seven high-speed rail corridors have been proposed as growth connectors, alongside continued expansion of inland waterways, coastal shipping and freight corridors to enhance logistics efficiency.
- f. **Fiscal Discipline and Borrowing:** The Budget reiterates a strong commitment to fiscal consolidation. The debt-to-GDP ratio is projected to decline to 55.6 percent in FY 2026–27 from 56.1 percent in FY 2025–26 (RE), supporting medium-term debt sustainability. The fiscal deficit is estimated at 4.3 percent of GDP for FY 2026–27. To finance the deficit, net market borrowings of INR 11.7 lakh crore through dated securities are proposed, with the balance to be met through small savings and other sources.
- g. **Tax and Regulatory Reforms:**
- **Investment by Persons Resident Outside India (PROI) under Portfolio Investment Scheme:** Under Schedule III to the FEMA (Non-debt Instruments) Rules, 2019, portfolio investment in listed Indian companies is currently permitted only for NRIs and OCIs, subject to a 5% cap per investor and an aggregate cap of 10%, which can be enhanced to 24% with shareholder approval by special resolution. It is now proposed to extend this framework to all Persons Resident Outside India (PROI), while simultaneously increasing the individual investment limit to 10% and the overall aggregate limit to 24%, thereby materially broadening the scope and quantum of permissible portfolio investment in listed Indian companies.
 - The safe harbour threshold for IT services is proposed to be significantly increased from INR 300 crore to INR 2000 crore with respect to applicability of transfer pricing provisions on overall transaction value basis.
 - It is proposed to constitute a Joint Committee of the Ministry of Corporate Affairs and the Central Board of Direct Taxes to incorporate the requirements of the Income Computation and Disclosure Standards (ICDS) into Indian Accounting Standards (Ind AS), with a view to doing away with separate ICDS-based accounting for tax purposes from tax year 2027–28.

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Budget 2026 at a Glance

INR in lakh Crores

Particulars	2024-25	2025-26	2026-27
	Actual Estimates	Revised Estimates	Budget Estimates
Net Tax Revenues	25.0	26.7	28.7
Non Tax Revenues	5.4	6.7	6.7
Total Revenue Receipts(A)	30.4	33.4	35.3
Capital Receipt (B)	0.4	0.6	1.2
Total Revenue (C=A+B)	30.8	34.1	36.5
Revenue Expenditure (D)	36.0	38.7	41.3
Capital expenditure (E)	10.5	11.0	12.2
Gross Domestic Product	330.7	357.1	393.0
Revenue Deficit (A-D)	-5.6	-5.3	-5.9
% of GDP	-1.7%	-1.5%	-1.5%
Fiscal deficit (C-D-E)	-15.7	-15.6	-17.0
% of GDP	-4.8%	-4.4%	-4.3%

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B. Key transaction-tax related amendments

1. Buyback Taxation

- Existing Position:** Under the present tax law, consideration received by a shareholder on buyback of shares was treated as dividend income, taxable at applicable rates, while the cost of acquisition of shares extinguished on buyback was allowed as a capital loss. This resulted in a split character: buyback consideration treated as dividend (irrespective of cost of acquisition), and cost recognized as capital loss.
- Proposed Amendment (with effect from FY 2026-27):** The Finance Bill, 2026 has proposed a complete shift in the character of buyback consideration by removing such consideration from the definition of dividend and subjecting it entirely to tax under the head Capital Gains. Consequently, the cost of acquisition of shares extinguished on buyback is now adjusted within the capital gains computation itself, rather than being recognised separately.

In addition, promoter-specific tax rates have been prescribed to provide for a higher tax incidence in cases where the shareholder is in a position to influence buyback decisions. The company continues to remain outside the tax net, and the entire tax burden is shifted to the shareholder level, but only in the form of capital gains taxation.

Following table captures the rate of taxes (excluding surcharge/ cess):

Sr.	Particulars	Long Term Capital Gains Tax	Short Term Capital Gains Tax
A.	Listed Company		
1	Promoter - Domestic Company	22.0%	22.0%
2	Promoter - Other than Domestic Company	30.0%	30.0%
3	Public	12.5%	20.0%
B.	Unlisted Company		
1	Holding > 10% (directly or indirectly) - Domestic Company	22.0%	Slab rates
2	Holding > 10% (directly or indirectly) - Others Shareholders	30.0%	
3	Holding < 10% - Any Shareholder	12.5%	

Katalyst Comments: The revised buyback framework clearly places promoters in a materially higher tax bracket, with buyback gains effectively taxed at rates comparable to normal income rather than at preferential capital gains rates. This creates a strong disincentive for buybacks

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in listed companies with high promoter shareholding, particularly where promoters participate in the buyback, as the tax leakage at the promoter level becomes significant. The amendment fundamentally eliminates buybacks as a tax-efficient distribution mechanism for promoters.

For foreign shareholders, the shift is even more consequential. Earlier, since buyback consideration was characterised as dividend, it was possible to argue for application of concessional dividend tax rates under applicable tax treaties. Post the change, buyback consideration is treated as capital gains, and given that most Indian tax treaties follow a source-based taxation model for capital gains on shares, the source country rate would apply. This results in a higher effective tax incidence for foreign companies participating in buybacks, materially altering the economics of buyback-led exits for non-resident shareholders.

2. Non-Deduction of Interest Expenditure against Dividend Income

- **Existing Position:** Under the existing provisions, dividend income and income from units of mutual funds were taxable under the head “Income from Other Sources”. Section 93 permitted deduction of interest expenditure incurred for earning such income, subject to a ceiling of 20% of the gross dividend or such income. This allowed leveraged investment structures to partially offset interest costs against dividend income.
- **Proposed Amendment (effective from FY 2026–27):** The Finance Bill, 2026 has proposed proposes to disallow any deduction in respect of expenditure, including interest expenditure, against dividend income and income from specified mutual fund units. As a result, dividend income is now taxable on a gross basis, without any set-off for funding costs.

Katalyst Comments: The amendment effectively treats dividend income as a passive return, disallowing any recognition of capital structure or funding decisions at the investor level. This materially impacts leveraged equity and yield-focused portfolios, where interest cost was earlier partially absorbed against dividend income. The change also removes long-standing debates on nexus and reasonableness of interest allocation, but at the cost of increased tax leakage for debt-funded investments.

3. Sovereign Gold Bonds (SGBs)

- **Existing Position:** Under the existing regime, capital gains arising on redemption of Sovereign Gold Bonds issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme were exempt from tax. The exemption was available without an explicit statutory distinction between original subscribers and subsequent transferees.

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- **Proposed Amendment (effective from FY 2026–27):** The Finance Bill, 2026 restricts the capital gains exemption on redemption of Sovereign Gold Bonds only to cases where the bonds are subscribed at the time of original issue, and the bonds are held continuously until redemption on maturity.
- Accordingly, transferees who acquire SGBs in the secondary market will not be eligible for capital gains exemption on redemption.

4. Securities Transaction Tax (STT)

- **Existing Position:** STT was levied on equity and derivatives transactions at specified rates, with futures and options trades attracting relatively lower rates compared to cash equity transactions.
- **Proposed Amendment (effective from FY 2026–27):** The Finance Bill, 2026 has proposed to increase STT rates on derivatives transactions, as under:
 - Sale of options in securities: increased from 0.10% to 0.15% of the option premium
 - Sale of options where exercised: increased from 0.125% to 0.15% of the intrinsic value
 - Sale of futures in securities: increased from 0.02% to 0.05% of the traded price

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C. Global business taxation

1. Exemption for Foreign Companies Procuring Data Centre Services in India

- **Existing Position:** Section 11 read with Schedule IV of the Income-tax Act, 2025 specifies certain categories of income of non-residents and foreign companies which are excluded from total income. However, income arising in India to a foreign company from procurement of data centre services was not specifically covered.
- **Proposed Amendment (effective from tax year 2026–27):** Finance Bill, 2026 has proposed to amend Schedule IV to exempt, in the hands of a foreign company, any income accruing or arising in India or deemed to accrue or arise in India by way of procuring data centre services from a specified data centre, for a period up to the tax year ending 31 March 2047.

For this purpose, a specified data centre means a data centre set up under an approved and notified scheme and owned and operated by an Indian company, and data centre services refer to services provided through the underlying physical, technical, and human infrastructure of such data centre in India.

The exemption is subject to the conditions that services provided to users located in India are routed through an Indian reseller entity, and that the foreign company does not own or operate any physical infrastructure or resources of the data centre.

2. International Financial Services Centre (IFSC)

- **Existing Position:** Section 147 of the Income-tax Act, 2025 provides a deduction of 100% of specified income to units located in IFSCs and Offshore Banking Units, available for 10 consecutive years out of 15 years for IFSC units and 10 consecutive years for OBUs.

In addition, certain intra-group advances or loans between group entities were excluded from the definition of dividend, subject to conditions relating to finance units and overseas listing of the parent entity.

- **Proposed Amendment (effective from tax year 2026–27):** Finance Bill, 2026 has proposed to extend the tax holiday period for IFSC units to 20 consecutive years out of 25 years, and for OBUs to 20 consecutive years, and further provides that business income earned after the expiry of the deduction period shall be taxed at a concessional rate of 15%.

In addition, the scope of dividend exclusion for treasury operations is rationalised by requiring that the other group entity involved in intra-group advances or loans is also

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located in a notified jurisdiction outside India, and by aligning definitions of group entity, parent entity, and principal entity with the IFSC regulatory framework, to provide greater certainty for treasury centres operating in IFSCs.

This amendment materially strengthens the IFSC proposition as a long-term treasury and capital hub.

3. Capital Equipment for Electronic Manufacturing

- Finance Bill, 2026 has proposed proposes to amend Schedule IV to exempt, in the hands of a foreign company, any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being an electronic manufacturing company resident in India, subject to specified conditions.
- The exemption applies where ownership of such capital goods, equipment or tooling remains with the foreign company, such goods are under the control and direction of the contract manufacturer, the contract manufacturer is located in a customs bonded area (warehouse under section 65 of the Customs Act, 1962), and the contract manufacturer produces electronic goods on behalf of the foreign company for a consideration. In addition, income accruing or arising outside India, and not deemed to accrue or arise in India, continues to remain outside the scope of taxation.

4. No Minimum Alternate Tax (MAT) for certain Non-Residents

- **Existing Position:** Under the existing provisions, certain foreign companies and non-residents were excluded from the applicability of Minimum Alternate Tax, including non-residents deriving income from specified businesses taxed on a presumptive basis under section 61 of the Income-tax Act, 2025. However, not all specified businesses covered under the presumptive taxation framework were excluded from MAT, resulting in differential treatment among non-resident businesses.
- **Proposed Amendment (effective from tax year 2026–27):** Finance Bill, 2026 has proposed to extend the MAT exclusion to two additional specified businesses of non-residents opting for presumptive taxation under section 61, namely the business of operation of cruise ships and the business of providing services or technology for setting up an electronics manufacturing facility in India to a resident company, thereby aligning the MAT treatment across all specified presumptive businesses.

5. Global Business – Critical Minerals

- **Existing Position:** Section 51 of the Income-tax Act, 2025 allows Indian companies and resident taxpayers to claim deduction, on a deferred basis over a period of ten years from

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commencement of commercial production, for expenditure incurred on prospecting, development, or extraction of minerals specified in Part A and Part B of Schedule XII, including expenditure incurred during the year of commercial production and up to four preceding years.

- **Proposed Amendment (effective from tax year 2026–27):** Finance Bill, 2026 has proposed to expand Schedule XII to include critical minerals, thereby extending the benefit of deduction under section 51 to expenditure incurred on prospecting and exploration of such minerals. As a result, expenditure incurred on critical mineral exploration and prospecting will also qualify for deferred deduction in accordance with the existing framework, with the objective of incentivizing domestic exploration and strengthening India’s participation in global critical mineral supply chains.

6. Individual Services under Notified Schemes:

- Finance Bill, 2026 has proposed to amend Schedule IV, with effect from tax year 2026–27, to exempt any income which accrues or arises outside India and is not deemed to accrue or arise in India, in the hands of an individual, being a non-resident for a period of five consecutive tax years immediately preceding the tax year during which he visits India for the first time for rendering services in India in connection with any scheme notified by the Central Government.
- The exemption is available only where such services are rendered in India in connection with the notified scheme and shall not extend beyond a period of five consecutive tax years commencing from the first tax year during which the individual visits India in connection with such scheme, subject to such other conditions as may be prescribed.

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D. Other key amendments

1. Treatment of MAT as Final Tax and Restriction on carry forward of MAT Credit

- **Existing Provision:** Section 206 of the Income-tax Act, 2025 levies MAT on companies at 15% of book profits (excluding IFSC units) where MAT exceeds normal tax, with excess MAT allowed as a carry-forward credit for up to 15 years under the old tax regime.
- **Proposed Amendment (effective from FY 2026-27):** Finance Bill, 2026 has proposed to:
 - Treat MAT paid under the old tax regime as final tax, and accordingly, no new MAT credit shall be allowed in respect of MAT paid under such regime.
 - Correspondingly, the MAT rate is proposed to be reduced from 15% to 14% of book profits.
 - Further, set-off of existing MAT credit shall be permitted only under the new tax regime, subject to limits, namely:
 - in the case of domestic companies, set-off shall be restricted to 25% of the tax liability for the relevant year, and
 - in the case of foreign companies, set-off shall be allowed only to the extent of the difference between tax on total income and MAT, in years where normal tax exceeds MAT.

2. Procedural Clarifications

- a. **FAO vs JAO jurisdiction for reassessment (sections 148 and 148A):** Finance Bill, 2026 has clarified that the pre-assessment enquiry and issuance of notice under sections 148A and 148 of the Income-tax Act, 1961 shall be carried out only by the jurisdictional Assessing Officer, and not by the National Faceless Assessment Centre or its assessment units. The faceless framework under section 144B is intended to operate only after issuance of notice under section 148. This clarification applies notwithstanding any judicial ruling and is given retrospective effect from 1 April 2021, with corresponding alignment in the Income-tax Act, 2025.
- b. **DIN-related defects not to invalidate assessments:** Financial Bill, 2026 has clarified that that no assessment, reassessment, notice or other proceeding shall be invalid merely due to any mistake, defect or omission relating to the computer-generated Document Identification Number (DIN), provided the document is otherwise in substance and effect in conformity with the Act.
- c. **Section 144C timelines:** Finance Bill, 2026 has clarified that the timelines under sections 153 and 153B of the Income-tax Act, 1961 apply up to the draft assessment order stage, while the timelines prescribed under sections 144C(4) and 144C(13) govern completion

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of assessment after acceptance of variations or receipt of DRP directions, notwithstanding sections 153 or 153B. This clarification is given retrospective effect from 1 April 2009 (section 153) and 1 October 2009 (section 153B), with corresponding amendments in the Income-tax Act, 2025.

- d. **Computation of sixty-day period for TPO orders (section 92CA):** Finance Bill, 2025 has clarified that the sixty-day period for passing the TPO order includes the date on which the limitation period under section 153 or section 153B expires, notwithstanding any judicial ruling to the contrary. Corresponding amendments are proposed in the Income-tax Act, 2025 to ensure uniform interpretation.

3. Updated Due Dates - Return Filing, Revision and Updation

- Finance Bill, 2026 has proposed targeted amendments to the timelines for filing and revision of returns of income as under:

Particulars	Earlier Position	Revised Position	Remarks
(A) Return filing Timelines			
Due date for filing return of income by <i>assesseees whose accounts are not required to be audited</i>	31 st July	31st August	One-month extension granted; <i>due dates for other assesseees remain unchanged</i>
(B) Revised Return Timelines			
Time limit for filing revised return	9 months from end of relevant tax year	12 months from end of relevant tax year	Additional 3-month window provided
Time limit for filing belated return	9 months from end of relevant tax year	Unchanged	Belated return timeline continues as earlier
Fee for delayed revised return	Not applicable	Applicable for revisions filed beyond 9 months	-

- Expansion of scope for filing updated return**

The Finance Bill proposes to widen the scope of filing updated returns to facilitate voluntary compliance and enable correction of certain categories of returns which were earlier restricted. The amendments primarily relate to permitting updated returns in cases involving reduction of loss and allowing filing of updated returns even after initiation of reassessment proceedings, subject to prescribed conditions.

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Particulars	Earlier position	Position after amendment
Updated return where loss is reduced	Permitted only where a return of loss was converted into a return of income; reduction of loss through updated return was not permitted.	Permitted where the amount of loss claimed in the original return is reduced, even if the updated return continues to be a return of loss.
Updated return after issuance of reassessment notice	Not permitted once reassessment proceedings were initiated or notice of reassessment was issued.	Updated return permitted even after issuance of reassessment notice, within the period specified therein, subject to payment of applicable tax and interest, additional income-tax of 25% (first year), 50% (second year), 60% (third year) or 70% (fourth year) from the end of the financial year succeeding the relevant tax year, along with a further 10% as an additional levy for filing updated return post-reassessment notice ; the assessee is barred from filing any other return in response to such notice and the income so disclosed shall not attract penalty

4. Rationalisation of provisions relating to Non-Profit Organisations (NPOs)

- Merger of NPOs:** While mergers between NPOs with the same or similar objects were expressly permitted under section 12AC of the Income-tax Act, 1961, the corresponding provisions under the Income-tax Act, 2025 did not specifically provide for such tax neutrality. Newly inserted section 354A now provides that tax on accreted income shall not apply where a registered NPO merges with another registered NPO having the same or similar objects, subject to prescribed conditions. Correspondingly, section 352(4) clarifies that tax on accreted income shall apply where an NPO merges with a non-NPO, with a registered NPO having dissimilar objects, or where prescribed conditions are not fulfilled.
- Violation of conditions by NPO:** Under the existing Income-tax Act, 1961, certain NPOs engaged in the advancement of objects of general public utility (section 2(15)) risk automatic cancellation of registration if their activities are viewed as “commercial”, even where such activities are incidental. For instance, a charitable trust running a museum charging entry fees, or a chamber of commerce collecting membership subscriptions, could trigger violation under section 13 read with section 12AB, leading to cancellation

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and taxation of accreted income. The proposed amendment reclassifies such cases so that these commercial activities will not be treated as 'specified violations' under section 351, but instead fall under 'other violations' under section 353, thereby avoiding automatic cancellation of registration and preserving continuity of exemption while still allowing regulatory oversight.

- **Removal of certain funds from registration requirements:** Section 332(1)(f) of the Income-tax Act, 2025 presently requires certain funds and institutions listed in Schedule VII to seek NPO registration, even though under the Income-tax Act, 1961 such entities enjoyed exemption under section 10 without registration. For example, statutory funds or government-notified institutions that were historically exempt under section 10(23C) or similar clauses were never required to undergo the trust registration process under sections 12A/12AB. The proposed amendment removes the reference to such persons from section 332(1)(f), restoring parity with the earlier regime and excluding them from mandatory registration with effect from tax year 2026–27, thereby preventing unnecessary compliance for entities whose exemption was never conditional on registration.
- **Filing of belated return by NPOs:** Registered NPOs are now permitted to file belated returns by reference to section 263(4), restoring the position that existed under the Income-tax Act, 1961, with effect from tax year 2026-27.

5. Disclosure of Foreign Assets and Relaxations under the Black Money Act

- The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 was enacted to address undisclosed foreign assets and provided a one-time compliance window in 2015. It has since been observed that non-compliance continues to be prevalent among small taxpayers, largely due to legacy or inadvertent omissions, such as ESOPs or RSUs from foreign employment, dormant or low-value foreign bank accounts, and overseas savings or insurance policies. To facilitate voluntary compliance and resolution of such cases, a time-bound disclosure scheme, FAST-DS 2026, is proposed, permitting declaration of foreign assets and foreign-sourced income on payment of tax or prescribed fee, together with limited immunity from penalty and prosecution under the Black Money Act, except in cases involving prosecution or proceeds of crime.
- Further, to provide relief in cases of minor and inadvertent non-disclosures, sections 49 and 50 of the Black Money Act are proposed to be amended to exclude prosecution for non-disclosure of foreign assets other than immovable property, where the aggregate value does not exceed INR 20 lakh. This relaxation is proposed to apply retrospectively from 1 October 2024.

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6. Rationalisation of TDS/ TCS Rates:

- **Rationalisation of TCS on foreign remittances under LRS:** To ease compliance and reduce cash-flow friction for genuine overseas expenditures, the Finance Bill, 2026 has rationalised TCS on remittances under the Liberalised Remittance Scheme (LRS). For remittances exceeding INR 10 lakh for education and medical treatment, the TCS rate is reduced from 5% to 2%, while the higher rate of 20% continues for remittances for other purposes.
- **Simplification of TCS on overseas tour programme packages:** The TCS structure applicable to overseas tour programme packages is simplified by replacing the slab-based regime with a uniform rate of 2% on the entire consideration. Earlier, such packages attracted TCS at 5% up to INR 10 lakh and 20% beyond that threshold. The move reduces complexity for tour operators and travellers alike, moderates upfront cash outflow, and aligns TCS on discretionary travel more proportionately with actual tax liability.
- **Clarification in TDS Rate on supply of manpower:** The Finance Bill, 2026 proposes to clarify long-standing ambiguity on the applicable TDS rate for manpower supply arrangements. Payments for supply of manpower have often been disputed as to whether they constitute “work” or “professional or technical services”, leading to inconsistent withholding and litigation. The proposed clarification treats manpower supply squarely as execution of work, ensuring a uniform and predictable TDS rate.

7. Other Amendments

- **Advance Pricing Agreements (APA):** Under existing provisions, only the taxpayer entering into an APA could file a modified return, even though the APA may have corresponding tax implications for the associated enterprise. To address this asymmetry, Finance Bill, 2026 has proposed to allow both the APA signatory and the affected associated enterprise to file a return or modified return, limited to the scope of the APA, within three months from the end of the month in which the APA is entered into. This amendment will apply to APAs entered into on or after 1 April 2026.
- **TDS - Online application for nil / lower withholding:** Under the existing framework, applications for nil or lower TDS certificates were required to be made before the Assessing Officer. To ease compliance, Finance Bill, 2026 has proposed an electronic application mechanism before a prescribed income-tax authority, which will have the power to issue or reject such certificates subject to prescribed conditions. This amendment will apply from 1 April 2026.

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- **Relaxation from TAN requirement for resident individuals/ HUFs:** Currently, resident individuals and HUFs are required to obtain a TAN for deducting TDS in certain one-off transactions, including transfer of immovable property. To reduce compliance burden, it is proposed to exempt resident individuals and HUFs from obtaining TAN for TDS on consideration paid for transfer of immovable property under section 393(2). This relaxation will apply from 1 October 2026.
- **Centralised filing of no-deduction declarations through depositories:** Presently, declarations for non-deduction of TDS on income such as dividends, interest on securities and mutual fund income must be filed separately with each payer. To simplify this process, Finance Bill, 2026 has proposed allowing such declarations to be filed with the depository for securities and units held in demat form and listed in India. Depositories will consolidate and report these declarations to the tax authorities on a quarterly basis. This change will be effective from 1 April 2027.
- **Non-life insurance – allowability of TDS-linked expenditure:** In the case of non-life insurance businesses, certain expenditures disallowed due to non-deduction or delayed payment of TDS are added back while computing profits, but the mechanism for allowing deduction in the year of subsequent TDS payment was incomplete. Finance Bill, 2026 has proposed to rationalise this by expressly allowing deduction of such expenditure in the year in which TDS is deducted and paid, thereby aligning the tax treatment with general disallowance principles.
- **Amendments in relation to Penalty and Prosecution**
 - **Rationalisation of prosecution and criminal liability:** The penal framework is softened by decriminalising minor and technical defaults, replacing rigorous imprisonment with simple imprisonment, capping jail terms, and introducing fine-only consequences for low-value cases. Punishment is now graded based on the quantum of tax evaded, reflecting a shift from criminalisation to proportional enforcement.
 - **Relief under the Black Money Act for small foreign assets:** Prosecution for non-disclosure of foreign assets (other than immovable property) is relaxed where the aggregate value does not exceed INR 20 lakh. This retrospective amendment targets legacy and inadvertent non-compliance such as ESOPs, dormant foreign bank accounts, or overseas savings of returning residents.
 - **Rationalisation of block assessment for third parties:** In search cases, block assessments for persons other than the searched taxpayer are restricted only to years to which undisclosed income actually relates, instead of the full block period. The

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completion timeline is linked to initiation of search or requisition, with a calibrated extension to 18 months.

- **Expansion of immunity from penalty and prosecution:** Immunity provisions are widened to cover cases involving misreporting of income, including unexplained credits, investments and expenditure, subject to payment of tax, interest and prescribed additional tax. This significantly expands the settlement window beyond under-reporting cases.
- **Alignment of immunity provisions across tax laws:** Immunity under the existing Income-tax Act is aligned with the new Act to remove exclusions for misreporting-linked penalties. Taxpayers making clean disclosures can now avoid both penalty and prosecution, reinforcing voluntary compliance as a policy objective.
- **Conversion of certain penalties into graded fees:** Procedural penalties relating to audit, transfer pricing reporting and financial transaction statements are converted into fixed or capped graded fees linked to delay. This reduces discretion, litigation and uncertainty in routine compliance defaults.
- **Rationalisation of tax and penalty on unexplained income:** The tax rate on unexplained income is reduced from 60% to 30%, and the standalone penalty is withdrawn. Such income is now governed by the general misreporting framework, integrating it into the mainstream assessment regime.

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E. Key Indirect Tax Proposals

I. Key GST Related Changes

1. **Intermediary Services – Place of Supply:** Section 13(8)(b) of the IGST Act, 2017 is proposed to be omitted. Consequently, for intermediary services where either the supplier or recipient is located outside India, the place of supply will be determined under the general rule, i.e., the location of the service recipient.
2. **Post-Supply Discounts:** Post-supply discounts will be excluded from the value of supply even without a prior contractual agreement, provided: a) the supplier issues a credit note; and (b) the recipient reverses the proportionate input tax credit through the credit note mechanism.
3. **Refund Rationalisation**
 - **Inverted Duty Structure:** 90% provisional refund facility extended to refunds of unutilised ITC arising from inverted duty structure.
 - **Exports on Payment of Tax:** Removal of threshold limits for sanction of refund claims.
4. **Advance Ruling – Interim Appellate Mechanism:** A new interim appellate framework is proposed by empowering the Government to notify an existing authority or tribunal to hear appeals against Advance Rulings until the National Appellate Authority for Advance Ruling is constituted.

II. Key Customs Duty Proposals

1. **Advance Ruling Validity:** Validity period of Customs Advance Rulings proposed to be increased from 3 years to 5 years.
2. **Customs Tariff Rationalisation:**

Sector	Key Change
Civil & Defence Aviation	BCD exemption on raw materials and parts for manufacture, maintenance, repair and overhaul of aircraft and engines (subject to conditions).
Energy Transition & Storage	Continuation of BCD exemption on capital goods for lithium-ion battery manufacturing, extended to Battery Energy Storage Systems (BESS).
Nuclear Power	BCD on nuclear fuel elements reduced from 7.5% to Nil. Existing BCD exemptions for nuclear power projects extended up to 2035.
