



# *Budget Alert 2026*

*Agrya Consulting*

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## Direct Tax proposals

### Tax Rates

#### Individual Assessee's – New Regime

Slab Rates	FY 2025-26 and FY 2026-27
Up to 4,00,000	Nil
From 400,001 to 800,000	5%
From 800,001 to 1,200,000***	10%
From 1,200,001 to 1,600,000	15%
From 1,600,001 to 2,000,000	20%
From 2,000,001 to 2,400,000	25%
Above 2,400,000	30%

\*\*\*Rebate (Section 87A of Old Act and Section 156 of New Act) is available for assesses whose income is less than Rs. 1,200,000 – benefit up to Rs. 60,000/ on tax payable. If income exceeds Rs. 1,200,000 you still get a partial rebate and the rebate amount is equal to the extra tax payable over Rs. 1,200,000.

#### Individual Assessee's – Old Regime

- For assesses except senior citizens

FY 2025-26 and FY 2026-27	Tax Rate
Up to 250,000	Nil
From 250,001 to 500,000*	5%
From 500,001 to 1,000,000	20%
Above 1,000,000	30%

- For senior citizen assesses 60 years or more but less than 80 years

FY 2025-26 and FY 2026-27	Tax rate
0-300,000	Nil
300,001-500,000*	5%
500,001-1,000,000	20%
1,000,000+	30%

- For senior citizen assesses 80 years or more

FY 2025-26 and FY 2026-27	Tax rate
0-500,000	Nil
500,001-1,000,000	20%
1,000,000+	30%

\*Rebate (Section 87A of Old Act and Section 156 of New Act) is available for assesses whose income was less than Rs. 500,000 up to Rs. 12,500/- for assesses choosing Old Regime

**Senior Citizens can also choose to avail the new regime if its beneficial to them.**

#### Surcharge for Individuals

FY 2025-26 and FY 2026-27	Old Regime	New Regime
Total Income <50 lacs	0%	0%
Total Income > 50 lacs to 100 lacs	10%	10%
Total Income > 100 lacs to 200 lacs	15%	15%
Total Income > 200 lacs to 500 lacs	25%	25%
Total Income > 500 lacs	37%	25%

**Note:** Health and Education Cess at 4% to be calculated on Tax and Surcharge

## Taxation for Domestic Companies

Total Turnover	FY 2025-26 and FY 2026-27
Less than 400 crores as per FY22-23 and FY23-24 Financials respectively	25%
More than 400 crores as per FY22-23 and FY23-24 Financials respectively	30%

## Surcharge for Domestic companies

Taxable Income	FY 2025-26 and FY 2026-27
Greater than 1 crore less than 10 crores	7%
More than 10 crores	12%

**Note:** Health and Education Cess at 4% to be calculated on Tax and Surcharge

Special Rate for domestic Companies	FY 2025-26 and FY 2026-27
If incorporated after 1 <sup>st</sup> October 2019 and engaged in manufacturing And not claiming exemptions	15%
For all domestic Companies subject to not claiming exemptions	22%

In the case of companies opting for special rate, flat surcharge of 10%

**Note:** Health and Education Cess at 4% to be calculated on Tax and Surcharge

## Taxation for Foreign Companies

**The tax rate stands at 40%.**

Taxable Income	FY 2025-26 and FY 2026-27
In so much of the total Income Consists of Royalties and fees for rendering technical services	50%
On the balance, if any, of the total income	40%

## Surcharge for Foreign companies

Taxable Income	FY 2025-26 and FY 2026-27
Greater than 1 crore but less than 10 crores	2%
Exceeding 10 crores	5%

**Note:** Health and Education Cess at 4% to be calculated on Tax and Surcharge

*Surcharge is also applicable on Minimum Alternate Tax and Dividend Distribution Tax.*

## For partnership firms and LLPs:

- For partnership firms flat rate of 30% is to be continued.
- Surcharge at 12% will be levied in case if Total income exceeds Rs. 100 lacs

**Note:** Health and Education Cess at 4% to be calculated on Tax and Surcharge

## Changes impacting Individual Taxpayers:

### 1. Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

- a. **Voluntary Disclosure:** A voluntary compliance window announced to regularise undisclosed foreign assets and income of small taxpayers.
- b. **Coverage:**
  1. **Undisclosed Foreign Assets / Income:** Applicable where aggregate value does not exceed ₹1 crore. Tax payable at 60% (30% tax on FMV of asset or undisclosed income, whichever is higher, plus 30% additional tax).
  2. **Income Disclosed but Foreign Assets Not Reported:** Applicable where aggregate value of foreign assets does not exceed ₹5 crore and assets were not reported in Schedule FA. Flat fee of ₹1 lakh payable.
- c. **Valuation Date:** Fair Market Value of foreign assets to be determined as on 31 March 2026.
- d. **Complete Immunity from Penalty and Prosecution:** Declarations under the scheme to receive full immunity from penalty and prosecution under the Black Money (Undisclosed Foreign Income and Assets) Act.
- e. **Eligible Taxpayer Profile:** Scheme targeted at individuals with ESOPs/RSUs, dormant foreign bank accounts, inherited foreign assets, or cases of inadvertent non-disclosure.

- f. **Exclusions from the Scheme:** Assets representing proceeds of crime under PMLA not eligible. Cases where assessment proceedings are already completed excluded.
  - g. **Declaration Window:** Time period for making declarations to be notified separately by the Central Government.
  - h. **Relief for Small Foreign Asset Holdings:** Foreign assets (other than immovable property) with aggregate value not exceeding ₹20 lakh exempt from prosecution under the Black Money Act. Applicable retrospectively from 1 October 2024.
- 2. **Buyback No Longer Treated as Dividend:** Proceeds from share buyback are excluded from the definition of dividend and will now be taxed under capital gains. This impacts shareholders, especially minority shareholders. Promoters and Corporate holding companies shall be taxed at higher rates of 22% and 33% based on corporate structure. [Section 2 & 69]
  - 3. **Restriction on Interest Deduction against Dividend Income:** The existing deduction of 20% of dividend income towards interest expenditure has been removed. [Section 93]
  - 4. **Sovereign Gold Bonds – Exemption Restricted:** Capital gains exemption on redemption of Sovereign Gold Bonds will be available only to original subscribers. Secondary market investors will be taxed. [Section 70]
  - 5. **TDS Relief on Accident Compensation:** Interest component of compensation awarded by Motor Accident Claims Tribunal exempt from TDS. [Section 393]
  - 6. **Rationalisation of TCS Rates:** Multiple TCS rates consolidated into a uniform rate of 2%, simplifying compliance benefiting frequent foreign travellers, students and medical treatments patents. [Section 394]
  - 7. **Digital Processing of Lower Deduction Certificates:** Applications for lower or nil TDS certificates can now be filed and processed electronically through rule based system for Select Assesses. [Section 395]
  - 8. **TAN Exemption for Specified Transactions:** TAN requirement removed for Resident assesses for deduction of Tax on purchase of immovable property and Virtual Digital Assets from NRI's. [Section 397]
  - 9. **Statutory Recognition of Welfare Exemptions:** Income tax exemptions for disability pension and compensation received on compulsory land acquisition have been exempt. [Schedule III]
  - 10. **Tax Rate on Unexplained Cash Credits Reduced:** Tax on unexplained cash credits reduced from 60% to 30%, easing the punitive impact. [Section 195]
  - 11. **Taxation of Interest on High-Value Provident Fund Contributions:** Methodology clarified for computing taxable interest on provident fund contributions exceeding prescribed limits. [Schedule XI]
  - 12. **Security Transaction tax** has been increased on sale of futures and option

### **Changes impacting Charitable Organisations.**

- 1. **Exit Tax on Merger of Exempt Entities:** Exit tax provisions will apply where an exempt entity merges with a non-exempt entity, preventing tax-free exits through merger structures. [Section 352]
- 2. **Tax Neutral Merger of NGOs:** No accreted income tax will apply where both amalgamating entities are registered non-profits, enabling consolidation in the NGO sector. [Section 354A]

### **Changes impacting Companies & Businesses:**

- 1. **Alignment of Allowability:** Employee contribution to PF/ESI will also be allowed as deduction if deposited by the due date of filing return. [Section 29]
- 2. **MAT Rationalisation:** MAT rate reduced to 14% from 15%. MAT under old regime treated as final tax; no fresh MAT credit allowed. Existing MAT credit can be used only under new regime and capped at 25% of tax liability. MAT credit not allowed where company converts into LLP. [Section 206]
- 3. **Interest Computation Linked to MAT Credit Cap:** MAT credit restriction of 25% will also apply while computing interest on self-assessment tax, advance tax and deferment. [Sections 265, 423–425]

4. **Expanded Scope of 'Work' for TDS:** Definition of 'work' expanded to expressly include supply of manpower services. [Section 402]
5. **Conversion of Penalties into Fixed Fees:** Audit-related penalties replaced with mandatory processing fees capped at ₹1.5 lakh; TDS/TCS reporting fees also capped at Rs. 1 Lakh. [Sections 427–428]
6. **Penalties for Crypto Asset Reporting Failures:** ₹200 per day penalty for failure to furnish VDA information and ₹50,000 penalty for inaccurate reporting. [Section 446]
7. **Penalty for Non-Furnishing of SFT:** Penalty of ₹1,000 per day, capped at ₹1 lakh, for failure to furnish SFT in response to notice. [Section 454]
8. **Tax Holiday for Foreign Data Centres:** Foreign data centre service providers operating in India granted a 20-year tax holiday, aimed at promoting India as a global data centre hub. [Schedule IV]
9. **Incentives for Critical Mineral Exploration:** Weighted deduction extended to expenditure incurred on prospecting and extraction of over 60 notified critical minerals, including lithium. [Schedule XII]
10. **Timing Relief for Insurance Companies on TDS Defaults:** Insurance companies allowed to claim deduction for TDS defaults in the year of actual payment instead of accrual. [Schedule XIV]

#### **Transfer Pricing & International Taxation**

11. **Extended Time Limit for TP Assessments:** Time limit for completing assessments in transfer pricing cases extended by 12 months. [Section 286]
12. **Clarification on Transfer Pricing Order Timelines:** Its clarified the computation of the "60 days prior" period for TPO orders shall be, In case of leap years, this would be **January 31**, and in non-leap years, **January 30** and For December deadlines, the order must be passed by **October 31**. [Section 92CA Old and Section 166 New]
13. **Modified Return for APA Cases:** Associated Enterprises may file modified returns within 3 months from the date of Advance Pricing Agreement. [Section 169]

#### **Co-operative Societies**

14. **Expanded Definition of Co-operative Society:** Multi-State Co-operative Societies brought within the definition. [Section 2]
15. **New Activities Eligible for Deduction:** Cotton seed processing and cattle feed manufacturing added to eligible activities. [Section 149]
16. **Inter-Co-operative Dividend Deduction Sunset:** Deduction for dividends received from other co-operatives restricted to investments made up to 31 January 2026. [Section 150]
17. **Mandatory Dividend Distribution Timeline:** Co-operatives must distribute declared dividends at least one month before return filing to claim deduction. [Sections 203 & 204]

#### **Changes impacting IFSC:**

18. **IFSC Tax Holiday Extended:** Tax holiday for IFSC units extended from 10 years to 20 consecutive years, within an overall window of 25 years as against 15 years. However for OBU's Tax holiday is extended from 10 years to 20 consecutive years [Section 147]
19. **Concessional Tax Rate for IFSC Units:** Post-deduction business income of IFSC units to be taxed at 15% from AY 2027–28. [Sections 217–218]
20. **NRI Becoming Resident – Continuity of Tax Regime:** NRIs becoming residents may continue under foreign asset taxation regime until such assets are converted into money, subject to declaration. [Sections 217–218]
21. **Restriction on Resident Holding in IFSC Funds:** Resident Indian participation in IFSC Specified Funds capped at 5% to preserve the international character of such funds. [Schedule VI]

## **Changes in Income Tax Return filing & Assessment Procedures**

1. **Revised Return Filing Timelines:** Non-audit assessee now have until August 31 to file returns (extended from July 31). Revised returns can now be filed up to March 31 (12 months from FY-end). If an Updated Return is filed in response to a notice, no second return can be filed for that notice. [Section 139]
2. **Updated Return Filing Extended to 48 Months:** Taxpayers can file an Updated Return within 48 months from end of the relevant Assessment year. Additional tax to be paid shall be 25%, 50%, 60% and 70% for 12, 24, 36 and 48 months respectively. If the assessee wants to update the return after receiving assessment notice it shall be increased by 10%. [Section 140B OLD and Section 267 New]
3. **DRP Final Assessment Order Timeline:** AO must now pass the final assessment order within 1 month of receiving DRP directions. [Section 144C in Old Act and Section 275 New Act]
4. **AO Jurisdiction for Reassessment:** NFAC (Faceless Assessment Centre) will not handle reassessment. Jurisdiction lies solely with the local AO. [Section 147A in Old Act and Section 279 in New Act]
5. **Assessment Time Limits:** Assessment timelines clarified to apply only up to draft order stage when DRP is involved. Applies to both regular and search/requisition cases. [Section 153 & Section 153B]
6. **No Interest on Penalty until Order Passed:** No interest will be levied on penalty amounts while the matter is under appeal. [Section 220 in Old Act and Section 411 in New Act]
7. **Fee for Extended Revised Returns timelines:** Now Returns can be revised till March 31 of the assessment year on payment of additional fee of Rs 1000 (Income <5 Lacs) or Rs. 5000 (Income >5 Lacs) [Section 234-I]
8. **Enhanced Power of DRC to Waive Penalties:** DRC can now waive impossible penalties even before formal imposition, offering early resolution options. [Section 245MA in Old Act and Section 379 in New Act]
9. **Penalty Base Excludes Tax Paid for Updated Return cases:** Income on which additional tax has been paid shall be excluded while computing under-reported income for penalty purposes. [Section 270A in Old Act and Section 439 in New Act]
10. **Immunity from Penalty for Misreporting Expanded:** Taxpayers who pay 100% additional tax on misreported income and has not filed an appeal are now eligible for penalty immunity, including for misreporting and under-reporting. [Section 270AA in Old Act & Section 443]
11. **Penalty Orders will now be integrated into main assessment orders,** reducing compliance documentation. [Section 274 in Old Act and Section 471 in New Act]
12. **Decriminalization of Tax Offences:** The Nature of imprisonment is changed from rigorous to simple. Maximum sentence reduced from 7 years to 2–3 years. This is Applicable to TDS/TCS defaults, Filing false returns, Book falsification, abetment, and second offences and Disclosure violations by public servants. [Sections 473–485]
13. Orders will not be invalid merely due to **absence of Document Identification Number (DIN)**, provided the number is referenced. This overrides prior court rulings. [Section 292BA in Old Act and Section 522 in New Act]
14. **Search Look-back Period Reduced:** Third-party search period limited to 6 years (4 years for audited entities). [Section 295]
15. **Extended Time Limit for Search Assessments:** Search assessments to be completed within 18 months from the end of the quarter in which search is concluded. [Section 296]
16. **Enhanced Survey Non-Cooperation Penalty:** Penalty for non-cooperation during survey increased from ₹1,000 to ₹25,000. [Section 466]

## GST Proposals

1. **GST Treatment of Post-Sale Discounts Liberalised:** Suppliers can issue credit notes for post-sale discounts even without a prior agreement. Correspondingly, the recipient will be required to reverse the related input tax credit. [Section 15(3) read with Section 34]
2. **Credit Notes Permitted for Post-Sale Discounts:** Scope of credit notes expanded to expressly include post-sale discounts, in addition to excess tax charged, returned goods, or cancelled invoices. [Section 34(1)]
3. **Provisional Refund Extended to Inverted Duty Structure:** Provisional refund of 90% extended to supplies under inverted duty structure, earlier restricted to zero-rated supplies. [Section 54(6)]
4. **Removal of Minimum Threshold for Export Refunds:** Refunds on export of goods to be allowed even where the refund amount is less than ₹1,000. [Section 54(14)]
5. **Interim Mechanism for Advance Ruling Appeals:** Central Government empowered to notify an existing authority or tribunal to hear appeals against advance rulings until the National Appellate Authority is constituted. [Section 101A(1A)]
6. **Place of Supply for Intermediary Services Shifted:** Place of supply for intermediary services to be determined based on the location of the recipient; where recipient location is unavailable, location of supplier to apply. This replaces the earlier rule where supplier location was decisive. [Section 13(8) read with Section 13(2)]



## About Agrya Consulting

Agrya Consulting is a professional services firm founded in 2010 with a vision of enabling clients' businesses operates more efficiently and effectively. Their ability to combine practical knowledge in a multitude of industries with years of experience enable them to deliver timely solutions to a variety of problems that businesses face in today's evolving environment. Agrya takes an approach to every engagement that seeks to ensure the highest degree of technical knowledge, experience, and timely delivery.

[Actionboard](#) and [Effortless](#) are the FinOps tools build to change the way the finance operations are managed today by the businesses.

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