

Direct Tax Proposals - Budget 2026-27

Presented by TRR & Associates (www.trris.in)

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1. New Income Tax Act (Ease of Living measures)

- Income Tax Act, 2025 effective from 1 April 2026.
- Simplified rules and forms to be notified soon.
- Redesigned forms for ease of compliance by ordinary citizens.

Ease of Living:

- Interest awarded by MACT exempt from Income Tax; no TDS.
- TCS on overseas tour packages reduced to 2%.
- TCS on education/medical remittance under LRS reduced to 2%.
- Manpower services explicitly covered under contractor payments; TDS at 1% or 2%.
- Automated scheme for small taxpayers to obtain lower/nil deduction certificates.
- Depositories empowered to accept Form 15G/15H and share with companies.
- Return revision window extended to 31 March.
- Staggered filing timelines:
 - ITR-1 & ITR-2 -> 31 July
 - Non-audit business cases/trusts -> 31 August
- TDS on immovable property sale by non-resident via buyer's PAN challan.
- One-time 6-month foreign asset disclosure scheme for small taxpayers.

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2. Rationalizing Penalty & Prosecution

- Integrated assessment & penalty order; reduced pre-payment from 20% -> 10%.
- Taxpayers may update returns post-reassessment with extra 10% tax.
- Immunity framework extended to misreporting (requires 100% additional tax).
- Technical defaults converted into fees.
- Minor offences -> fine only; serious offences -> simple imprisonment (max 2 years).
- Foreign assets < Rs.20 lakh -> immunity from prosecution (retrospective from Oct 2024).

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3. Cooperatives

- Deduction extended to cattle feed & cotton seed supplied by members.
- Inter-cooperative dividend income deductible if redistributed to members.
- 3-year exemption for dividend income of notified national cooperative federations (investments till Jan 2026).

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4. Supporting IT Sector

- IT services clubbed under one category.
- Safe harbour margin: 15.5%.
- Threshold raised: Rs.300 crore -> Rs.2,000 crore.
- Automated approval for safe harbour; valid for 5 years.
- Fast-track APA process within 2 years (extendable by 6 months).
- Modified returns facility extended to associated entities.

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5. Attracting Global Business & Investment

- Tax holiday till 2047 for foreign cloud service providers using Indian data centres.
- Safe harbour 15% on cost for related data centre entities.
- Safe harbour 2% margin for non-resident component warehousing.
- 5-year tax exemption for non-residents supplying capital goods/equipment to toll manufacturers.
- Exemption for global experts: non-India sourced income exempt for 5 years.
- MAT exemption for non-residents taxed on presumptive basis.

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6. Tax Administration

- Joint Committee (MCA + CBDT) to integrate ICDS into IndAS.
- Definition of accountant rationalized for Safe Harbour Rules.

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7. Other Tax Proposals

- Buyback taxation:
 - All shareholders taxed as Capital Gains.
 - Promoters: effective tax 22% (corporate), 30% (non-corporate).
- TCS rationalization:
 - Alcohol, scrap, minerals -> 2%.
 - Tendu leaves -> reduced to 2%.
- STT increases:
 - Futures -> 0.05%
 - Options premium -> 0.15%
 - Options exercise -> 0.15%
- MAT made final tax from 1 April 2026; rate reduced to 14%.
- Existing MAT credit (till March 2026) remains available for set-off.

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8. Annexures (Highlights)

- Education-to-Employment Committee: identify growth sectors, embed AI in curriculum, upskill workforce, attract diaspora talent.
- Ease of Living (Annexure B): electronic verification for lower TDS, extended return filing timelines, rationalized compliance for immovable property sales.
- Penalty & Prosecution (Annexure B): conversion of penalties to fees, rationalized prosecution framework, immunity under Black Money Act, crypto-asset compliance penalties.
- Global Business (Annexure B): incentives for toll manufacturing, IFSC competitiveness, critical minerals exploration.
- Corporate Tax Regime (Annexure B): MAT reduced to 14%, set-off allowed only in new regime.
- Other Provisions (Annexure B): rationalized buyback taxation, STT increases, exemptions for Sovereign Gold Bonds, disability pensions, land acquisition compensation.

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9. Closing Slide

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