



THE FINANCE BILL, 2026

Direct Tax Proposals

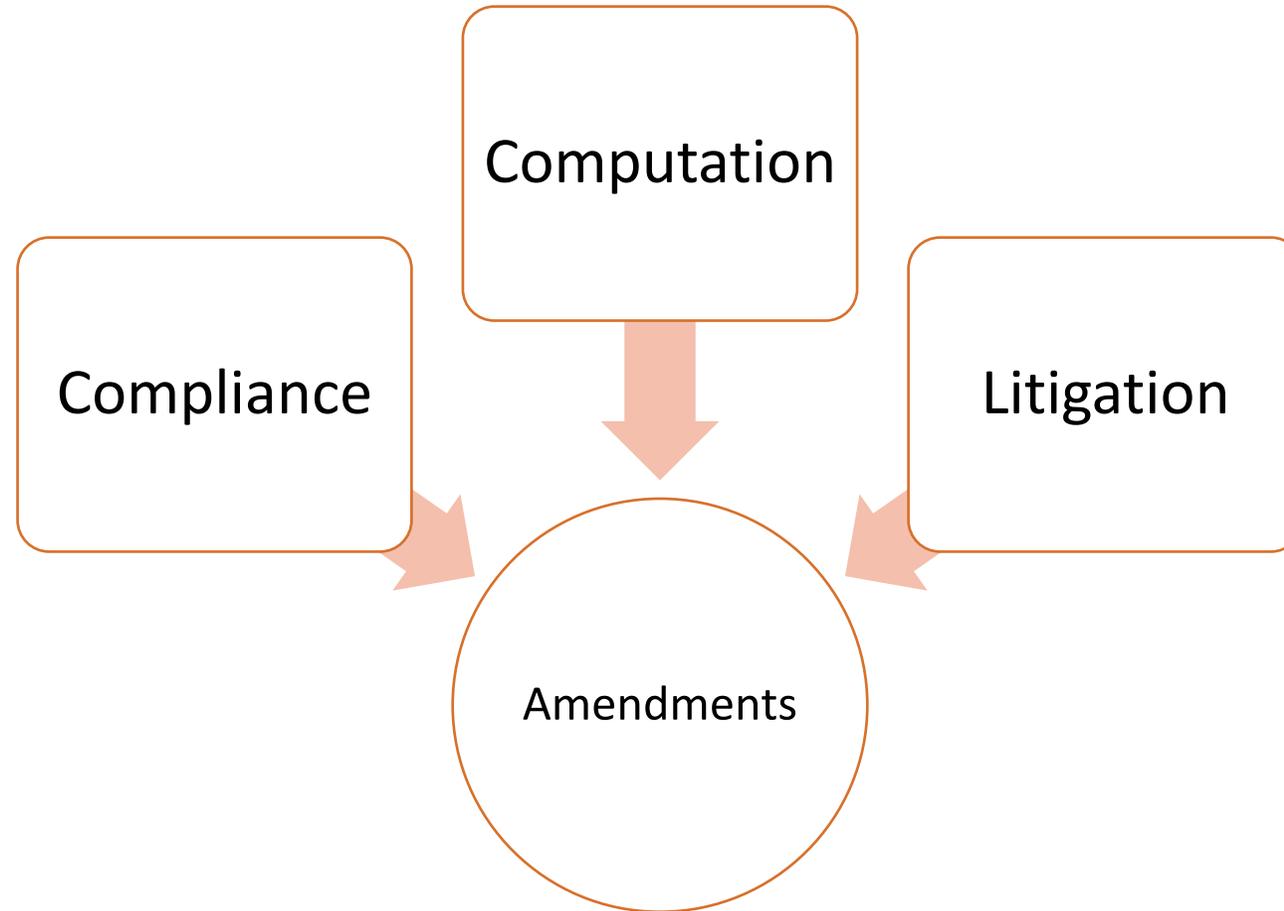
CA. Manish Dafria, Indore

Finance Bill 2026



- Amendments in Income-tax Act , 1961- w.e.f. AY 26-27
(retrospective effect in some cases)
- Amendments in Income-tax Act , 2025- w.e.f. TY 26-27

Agenda of Discussion





Compliance



Return Due Dates

- Due date for filing of Non Audit Business ITRs : 31-08
- Applicable from AY 26-27
- Covering cases like
 - 44AD/44ADA
 - Firms/LLPs not in audit
 - F & O cases



Revised Return

- Revised Return can be filed upto 31st March.
- Fees of Rs. 1000/5000 is payable for post 31.12 revisions.
- Applicable from AY 26-27. (So current AY returns are not covered)

Return Filing	Fees Payable
Return filed upto due date	No Fees
• Revised upto 31-12	No Fees
• Revised between 01-01 to 31-03	1000/5000

Return Filing	Fees Payable
Return filed after the due date –upto 31-12 (Belated Return)	1000/5000
• Revised upto 31-12	No Fees
• Revised between 01-01 to 31-03	1000/5000

Return Filing	Fees Payable
Return filed after 31-12 (Updated return)	1000/5000 + Additional Tax
No revision allowed	

Updated Returns



1. Can be filed to reduce the losses.
2. Can be filed even after issuance of Sec. 148/ Sec. 280 notice- with Extra additional tax of 10%.
 - Applicable from 01.03.26.

Various Avatars of Returns



Upto
Due
Date

Revised
Return upto
31-12

Updated
return upto
2/3/4/5 years
from T.Y.

Belated
Return

Revised
Return after
31-12

Updated return upto
2/3/4/5 years from
T.Y. – after 148/280
notice

Each type comes with different monetary consequences



Strategies for Reassessment

File Updated return after 148A/281
Show Cause- Pay additional tax as
per applicable year

File Updated return after 148/280
notice - Pay additional and also
“extra” additional tax of 10%

Strategies for
Reassessment

Allow assessment to proceed, pay
tax and apply for penalty immunity

Allow assessment to proceed and
challenge additions + penalty in
Appeal

Strategies for Reassessment



- After 148/ 280 notice, assessee may file
 - Normal Return
 - Updated Return
- The normal return , in case of addition, would expose him to penalty u/s. 270A/439, apart from normal tax and interest thereon.
- Updated return would require payment of :
 - Normal tax and interest thereon
 - Additional Income tax (25%/50%/60%/75%)+ 10%

Conversion of Penalties into Fees (T.Y. 26-27)



S. No.	Nature of Default	Proposed Provision (Fee)	Proposed Fee
1	Failure to get accounts audited and furnish the audit report u/s. 63 by the due date	Section 428(c)	Rs. 75,000 : Delay upto 1 month Rs. 1,50,000 : Delay beyond 1 month
2	Failure to furnish report u/s. 172 (TP Audit) by the due date	Section 428(d)	Rs. 50,000 : Delay upto 1 month Rs. 1,00,000 : Delay beyond 1 month
3	Failure to furnish statement of financial transaction (SFT)	Section 427(3)	Rs. 200 per day , Max. 1,00,000
4	Failure to furnish SFT even after notice	(Penalty retained)	Penalty Rs. 1000 per day Maximum cap of Rs. 1,00,000.

Penalty was discretionary. Fees is mandatory. No reasonable cause concept applies with fees.

TDS



- No TDS on Interest on Motor Accidental Claims Tribunal (MACT) Compensation paid to an Individual
- **TDS of Non Resident for immovable property purchase would be PAN-based (applicable w.e.f. 01.10.2026).**
- TDS on Supply of Manpower @ 1% / 2%

Lower TDS Application

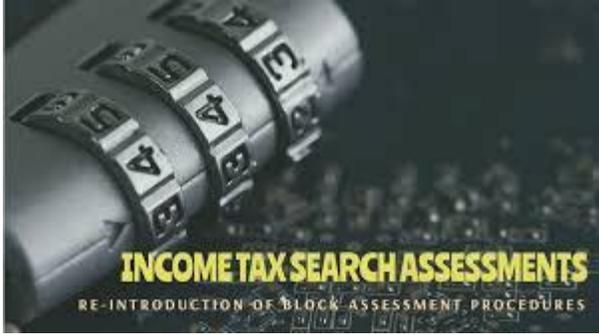


- It is proposed to ease the compliance burden of **small taxpayers** by providing an option to the payee, to file the application for issuance of certificate for lower or nil deduction of income-tax electronically.
- From the budget speech :
 - I propose a scheme for small taxpayers wherein a rule-based automated process will enable obtaining a lower or nil deduction certificate instead of filing an application with the assessing officer.
- Enabling provision made in Sec. 395(6) of the Income-tax Act 2025.



Tax Collected at Source (TCS)

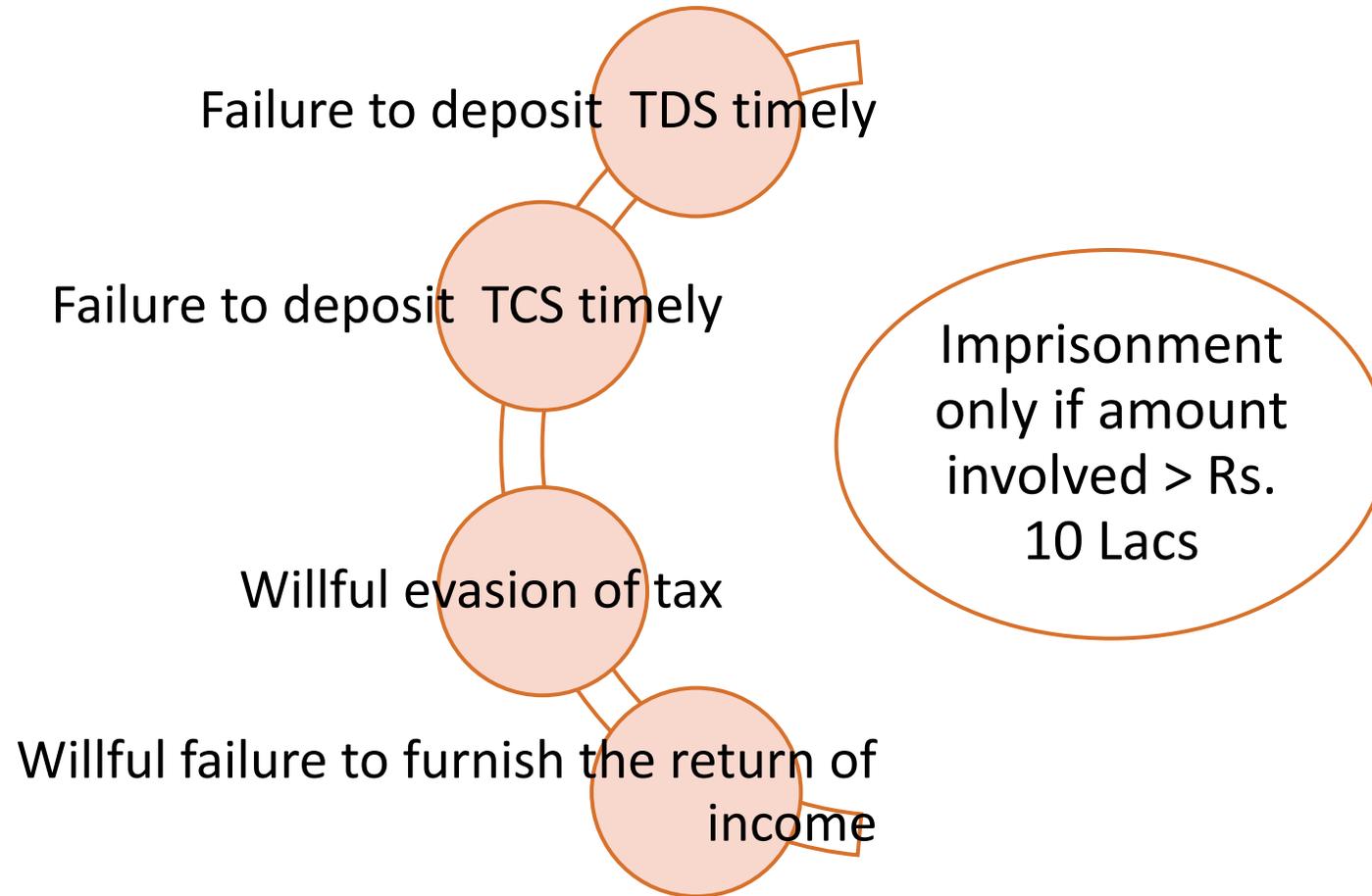
S.No.	Nature of receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption.	1%.	2%.
2	Sale of tendu leaves.	5%.	2%.
3	Sale of scrap.	1%.	2%.
4	Sale of minerals, being coal or lignite or iron ore.	1%.	2%.
5	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding ten lakh rupees—	(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%



Block Assessment

- Block period for 3rd person may be 1 year – if undisclosed income pertains to a single year.
- Block Assessment order is to be passed within 18 months from the end of the quarter in which search initiated.

Prosecution





Computation

Exemptions



1. MACT Claim Interest

- Interest received on compensation amount awarded by Motor Accident Claims Tribunal is fully exempt for an Individual or his legal heir.

2. Land acquisition award under RFCTLARR Act

Any income in respect of any award or agreement made on account of compulsory acquisition of any land is fully exempt from tax if

- Received by an individual or HUF
- Such award or agreement is made under the provisions of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.

Exemptions



3. Disability Pension

- Exemption allowed for paramilitary forces also

4. Data Centers

- Income arising in India to a foreign company by way of procuring data centre services from a specified data centre.
- Such exemption shall be available up to tax year ending on the **31st March, 2047**.

Income Computation (Applicable from TY 2026-27)



1. Employee PF Contribution

- Deduction allowed if paid upto ITR due date
- Given the similar treatment as for Employer's contribution
- However no deduction to be ever allowed if paid after the ITR date.

2. Tax on Buy Back

- Normal Shareholder: Capital Gains
- Promoters : Treated as Capital Gain BUT taxed at 22%/30%
 - For Unlisted companies, person having shareholding >10% is a promoter

Income Computation (Applicable from TY 2026-27)

3. SGB Capital Gain

- Exempt only if held from the date of original issue till maturity

4. Dividend Income

- No deduction to be allowed from dividend

5. Safe Harbor



Safe Harbor Rules- IT Services



From Budget Speech

- India is a global leader in software development services, IT enabled services, knowledge process outsourcing services and contract R&D services relating to software development. These business segments are quite inter-connected with each other.
- **All these services are proposed to be clubbed under a single category of Information Technology Services with a common safe harbour margin of 15.5 percent applicable to all.**
- The threshold for availing safe harbour for IT services is being enhanced substantially from 300 crore rupees to 2,000 crore rupees.
- Safe harbour for IT services shall be approved by an automated rule-driven process without any need for tax officer to examine and accept the application. Once applied by an IT Services company, the same safe harbour can be continued for a period of 5 years at a stretch at its choice.

Taxation of Unexplained Income (TY 26-27)



1. Tax rate u/s. 195 (old sec. 115BBE) reduced to 30%
2. Surcharge applicable @25% of tax
3. Penalty to be charged @200% of tax, treating it as misreporting
4. Immunity/waiver of penalty may be claimed by paying 120% of tax on such income within the time limit.
5. No penalty if voluntarily declared in ITR

Minimum Alternate Tax



Minimum Alternate Tax –MAT (TY 26-27)

1. Rate of MAT reduced to 14%.
2. No MAT Credit allowed under the old regime
3. Any MAT Credit as on 31.03.2026 :
 - To be setoff against tax payable in the new regime
 - Maximum set off in a year is 25% of the tax payable
 - Balance MAT credit can be carried forward



Litigation



ISSUANCE OF NOTICE U/S 148

Jurisdiction for issue of notice u/s 148

- Notice u/s 148 are to be issued by JAO
- Clarification to take effect in the Income Tax Act, 1961 retrospectively from **1st April, 2021**
- Amendment in Income-tax Act, 2025 shall come into force with effect from 1st April, 2026

DIN



- 292BA. Notwithstanding anything contained in any judgment, order or decree of any court, for the removal of doubts, it is hereby clarified for the purposes of section 292B that no assessment under any of the provisions of this Act shall be invalid or shall be deemed to have been invalid on the ground of any mistake, defect or omission in respect of quoting of a computer generated Document Identification Number, **if the assessment order is referenced by such number in any manner.**
- As per memorandum :-
 - this amendment seeks to clarify as long as there is a reference of DIN in the assessment order, the same would be sufficient compliance even if there may be some minor mistakes, defects or omissions in notices or summons in relation to such assessment.

Penalties



Merging of Assessment and Penalty Order

- Penalty to be imposed as a part of order of assessment or reassessment
- Orders u/s. 143/147 of old act OR u/s. 270/279 of the new act- **passed on or after 1st April, 2027**
- Order u/s. 144- Best Judgement Assessment not covered- **Omission or deliberately left out ?**
- No interest to be charged on penalty amount u/s. 220 till CIT(A) Order (in case of DRP-based assessment till the passing of ITAT Order)

Penalties

Immunity from Penalty

- **Misreporting of Income**

- by paying 100% of the tax on such income

(Applicable with effect from 1st March, 2026)

- **Unexplained Income**

- by paying 120% of the tax on such income

(Applicable from tax year 2026-27)



**Knowledge and Happiness –
Only Two Things Increase By Sharing**

Thank You

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