I. General

Q.1 What are the categories under which the proposals of the Budget 2026-27 are classified?

Ans: The budget proposals are classified under the following categories:

(A) Ease of Living

(B) Rationalising penalty and prosecution

(C) Cooperatives

(D) Supporting IT sector as India's growth engine

(E) Attracting global business and investment

(F) Rationalisation of corporate tax regime

(G) Rationalisation of other direct tax provisions

EASE OF LIVING

II. Exemption on interest income awarded under the Motor Vehicles Act, 1988 [Schedule III]

Q.1 What amendment has been proposed in the Income-tax Act, 2025 in connection with the provisions of the Motor Vehicle Act, 1988?

Ans: A new provision has been inserted to exempt any income in the nature of interest awarded under the Motor Vehicle Act, 1988 to an individual or his legal heir.

Q.2 Who would be eligible to claim such exemption?

Ans: An individual or his legal heir would be the eligible person.

Q.3 What are the applicable conditions for availing such exemption?

Ans: The only requirement under the proposed provision is that such interest income is awarded by Motor vehicle Claims Tribunal under the Motor Vehicles Act, 1988 by an individual.

Q.4 Does the proposed amendment cover the amount of interest awarded by the Motor Vehicle Claims Tribunal?

Ans. Yes, the proposed provision covers interest awarded by the Motor Vehicle Claims Tribunal.

Q.5 Will the compensation be also exempted if it is awarded to a non-individual under the Motor Vehicle Act 1988?

Ans: No, the proposed provision of exemption is applicable to an individual and his legal heir.

Q.6 What are the TDS provisions consequent to such changes?

Ans: The provision of TDS shall not apply on such income. The appropriate amendment in this regard has also been proposed.

***III. No TDS on interest awarded by Motor Accidents Claims Tribunal to an individual as per the provision of Section 393(4) [Table: Sl. No. 7]* of the Income-tax Act, 2025**

Q.1 Is there any provision for deduction of tax at source in respect of interest on compensation amount awarded by Motor Accidents Claims Tribunal (MACT)?

Ans. Yes. Section 393(4) [Table: Sl. No 7] of the Income-tax Act, 2025 provides that no tax shall be deducted at source on such interest, if the aggregate amount received during the year does not exceed Rs. 50000.

Q.2 Whether the interest on compensation is taxable under the Income-tax Act, 2025 presently?

Ans: Yes, presently interest on compensation is taxable under section 278 of the Income-tax Act, 2025.

Q.3 What changes are proposed in this regard in the Finance Bill, 2026?

Ans: It is proposed that interest awarded by MACT will not be taxable in the hands of individual or his legal heir.

It is also proposed that no tax shall be deducted at source on any interest amount awarded by the MACT, if such interest is credited or paid to an individual.

Q.4 Whether there is any change in respect of a person other than an individual with respect to the applicability of TDS when such interest income is received?

Ans: No. In case of a person other than an individual, the existing provisions of the Income-tax Act, 2025 will continue and any interest amount exceeding Rs. 50000 will be liable for TDS.

Q.5 From which date will the above amendment be effective?

Ans: The amendments are proposed to be made effective from 1st April, 2026.

***IV. Including "supply of manpower" within the ambit of definition of "work" for the purposes of TDS as defined in section 402(27)* of the Income-tax Act, 2025**

Q.1 Which provisions of the Income-tax Act, 2025 deals with TDS rate on contract and fee for professional services?

Ans: Section 393(1) [Table: Sl. No. 6(i)] of the Income-tax Act, 2025 provide for rate of TDS on payment to contractors. Whereas section 393(1) [Table: Sl. No. 6(iii)] of the Income-tax Act, 2025 provide for rate of TDS on fee for professional service.

Q.2 What are the rates at which TDS shall be made under the aforesaid section.

Ans: Under section 393(1) [Table: Sl. No. 6(i)] of the Income-tax Act, 2025, TDS shall be deducted @2%, if the payee is resident individual or HUF and @1%, if payee is a person other than individual and HUF.

TDS rates under section 393(1) [Table: Sl. No. 6(iii)] of the Income-tax Act, 2025 is 2% and 10%. However, TDS shall be done @10% in respect of fee for professional services.

Q.3 What changes are proposed in the Finance Bill, 2026 with regard to rate of TDS on supply of manpower?

Ans: It is proposed that the definition of "work" may be extended to include "supply of manpower" within its ambit so as to provide clarity that rate of TDS for supply of manpower shall be governed by the provisions of section 393(1) [Table: Sl. No. 6(i) and (ii)] of the Income-tax Act, 2025.

Q.4 From which date will the above change be effective?

Ans: The amendments are proposed to be made effective from 1st April, 2026.

***V. Simplified procedure for small taxpayers to obtain certificate of lower or nil deduction of tax at source under section 395* of the Income-tax Act, 2025**

Q.1 What is the present provision under the Income-tax Act, 2025 for obtaining certificate for deduction of income-tax at a lower rate or no deduction of income-tax?

Ans: As per the present provisions, the payee has to make an application before the Assessing Officer.

Subsequent to the application, if the Assessing Officer is satisfied that the total income of the recipient justifies deduction at any lower rates or no deduction, he/she issues a certificate. However, the process for issuance of such certificates is uniform both for cases involving small amounts as well as large amounts

Q.2 What is the change proposed vide Finance Bill, 2026?

Ans: For small taxpayers, it is proposed that the application for issuance of certificates for lower rate or nil deduction of tax may be made electronically to the prescribed income-tax authority.

The prescribed income-tax authority shall examine the application electronically and issue the certificate subject to fulfilment of conditions as may be prescribed, or reject the application if prescribed conditions are not fulfilled or the application is incomplete.

Q.3 Who can make application to the prescribed income-tax authority under the proposed changes?

Ans: The category of taxpayers and other related conditions will be prescribed by the Board by making rules in this regard.

Q.4 Who will be the prescribed income-tax authority to whom application can be made?

Ans: Such authority will be prescribed by the Board by making rules in this regard.

Q.5 Can a person file application before Assessing Officer as well as to prescribed income-tax authority?

Ans: No. The application can be filed either before the Assessing Officer or to the prescribed income-tax authority.

Q.6 From which date will the above amendment be effective?

Ans: The amendments are proposed to be made effective from 1st April, 2026.

***VI. Ease of compliance to the investors filing declaration for no deduction of tax under section 393(6)* of the Income-tax Act, 2025**

Q.1 What is the existing procedure for furnishing a declaration for no deduction of tax under section 393(6) of the Income-tax Act, 2025?

Ans: At present, the taxpayer has to furnish a declaration for no deduction of tax to the person responsible for paying (hereinafter referred as the "deductor") any income of the nature specified in section 393(6) of the Income-tax Act, 2025.

Q.2 What changes are proposed in the Finance Bill, 2026 in this regard?

Ans: It has been proposed that the taxpayer may file the declaration u/s 393(6) of the Income-tax Act, 2025 to the depository, as defined in section (2)(e) of the Depositories Act, 1996, for following nature of income:

(i) Income from units of a mutual fund

(ii) Interest from securities

(iii) Dividends

The depository will make available the declaration filed with it to the deductor.

Q.3 Whether a person who does not hold its units and securities in the depository can make declaration to the depository?

Ans: No. A person can only make declaration to the depository, if

(i) the units and securities are held in the depositories and

(ii) such securities are listed on a recognized stock exchange

Q.4 What will be the procedure and manner to file a declaration with the depository?

Ans: The procedure and manner for filing the declaration with the depository and making available such declaration to the deductor will be provided by making rules in this regard.

Q.5 Will the depository provide necessary enablement to file the declaration with it?

Ans: Yes, the depositories will make necessary arrangements to ensure that the declaration is filed with them.

Q.6 Will the deductor be mandated to consider the declaration made available to it by the depository?

Ans: Yes, the deductor is mandated to consider the declaration received from the depository.

Q.7 Is there any change with regard to delivering the declaration to the Department?

Ans: Yes, two changes are proposed in this regard.

(i) The deductor will furnish declaration received to the prescribed income-tax authority and not to the Principal Chief Commissioner or Chief Commissioner or Principal Commissioner or Commissioner.

(ii) The deductor will be required to deliver the declaration received by it on quarterly basis and not on monthly basis.

Q.8 What will be the impact of the proposed changes?

Ans: The taxpayer will not have to file separate declaration with different entities and instead it can file the declaration with the depository. It will ease the compliance burden of the taxpayers.

The deductor will receive declaration from a single source i.e. depository and will have to deliver declarations received on quarterly basis. This will make compliance easier for the deductors.

Q.9 From which date will the above change be effective?

Ans: The amendments are proposed to be made effective from 1st April, 2027.

VII. Rationalisation of period of filing revised return

Q.1 What does Section 263 of the Income-tax Act, 2025 deal with?

Ans: Section 263 of the Income-tax Act, 2025 provides for the furnishing of return of income by a person whose total income exceeds the basic exemption limit or who is otherwise required to file a return under the of the Income-tax Act, 2025.

Q.2 Who is required to file a return under Section 263 of the Income-tax Act, 2025?
Ans: Any person (individual, company, firm, etc.) whose income exceeds the prescribed limit or who satisfies specified conditions must file a return.

Q.3 What happens if return is not filed under Section 263 of the Income-tax Act, 2025?
Ans: Failure to file the return may attract fee, interest, penalty, and prosecution, as provided under other sections of the Act.

Q.4 What is a revised return under Section 263 of the Income-tax Act, 2025?
Ans: A revised return is a return furnished to correct any omission or wrong statement in a previously filed return (original or belated) for a tax year.

Q.5 Presently, when can a revised return be filed?

Ans: It can be filed any time within nine months from the end of the relevant tax year or before the completion of the assessment, whichever is earlier.

Q.6 What are the proposed changes in revised return in Finance Bill, 2026?

Ans: As per the proposed changes the revised return can be filed any time within twelve months (instead of nine months at present) from the end of the relevant tax year or before the completion of the assessment, whichever is earlier.

Q.7 What are the proposed changes as regards to fee in respect of revised ITR?

Ans: A fee is proposed in section 234I of Income tax Act, 1961 and corresponding fee in section 428(b) of Income-tax Act, 2025 for revised return filed beyond nine months from end of relevant tax year.

Q.8 What is the income threshold of determination of fee – is it total income or incremental income in the revised return?

Ans: Fee is imposed on the total income that has been filed during revised return. If the total income filed in the revised return exceeds 5 lakh rupees and revised return is filed after 9 month from end of tax year then fee shall be Rs 5000 and if the total income is less than 5 lakh rupees then fee shall be Rs 1000.

VIII. Due Dates for filing return of Income

Q.1 What are the changes that has been carried out in due dates for filing of return of Income?

Ans: Due date for non-audit business cases and Trusts is extended under 263(1)(c) of Income-tax Act, 2025 from 31st July to 31st August.

Q.2 What is the rationale for making amendments in due dates under section 263(1)(c) of the Income-tax Act, 2025?

Ans: It is envisaged to provide more time for non-audit business cases and trusts to prepare their books of account and make necessary compliances and reduce grievances.

Q.3 What are the changes in due dates for salaried Individuals?

Ans: Due date for assessee filing ITR-1 & ITR-2 shall remain 31st July.

Q.4 When shall these amendments in due dates under section 263(1)(c) of the Income-tax Act, 2025 will come into force?

Ans: Amendments under section 263(1)(c) of Income-tax Act, 2025 shall be effective from 1st April, 2026 and shall be applicable for tax year 2026-27.

Q.5 Whether similar amendments are carried out under Income-tax Act, 1961?

Ans: Yes, similar amendments under Explanation-2 to section 139(1) has been carried out in Income-tax Act, 1961.

Q.6 Which assessment year shall be affected by the amendments made in Income-tax Act, 1961?

Ans: Amendments in section 139(1) of Income-tax Act, 1961 shall be effective from 1st March, 2026 and shall be applicable for assessment year 2026-27(previous year 2025-26). Accordingly due date for non-audit business cases and Trusts for AY 2026-27 shall be 31st August 2026.

***IX. No TAN requirement for deducting TDS where seller of the immovable property is a non-resident under section 397* of the Income-tax Act, 2025**

Q.1 Who are required to obtain TAN under the Income-tax Act?

Ans: Section 397(1) of the Income-tax Act, 2025 provides that every person, deducting or collecting tax shall apply for the allotment of a Tax Deduction and Collection Account Number (TAN).

However, clause (c) of the said section provides for the cases where a person is not required to obtain TAN for deducting TDS.

Q.2 Whether a resident individual or Hindu undivided family (HUF) is required to obtain TAN, where he is required to deduct tax on any consideration for sale of immovable property and the seller of the property is a resident?

Ans: No. In case the seller of the immovable property is a resident, the resident individual or HUF is not required to obtain TAN for deduction of income-tax.

In such cases, the buyer deducts tax using his PAN and reports the deduction quoting the PAN of seller in the challan-cum-statement that is filed with the department.

Q.3 What is the present provision in respect of transaction on immoveable property is the buyer is a resident and the seller is a non-resident?

Ans: In case the seller of the immovable property is a non-resident, the resident individual or HUF is required to obtain TAN for deduction of income-tax.

Q.4 What is the change proposed with regard to obtaining TAN in the Finance Bill, 2026?

Ans: It is proposed that the resident individual or HUF will not be required to obtain TAN where TDS is required to be deducted by him on any consideration for the transfer of any immovable property and the seller of the property is a non-resident.

In such cases, the buyer will now deduct tax using his PAN and shall report the deduction quoting the PAN of seller in the challan-cum-statement that is filed with the department. Therefore, the process of tax deduction and reporting shall now be similar irrespective of whether seller is a resident or a non-resident

Q.5 How will it benefit the taxpayers?

Ans: It will reduce compliance burden on the resident individual and HUF as they will not be required to obtain TAN for such transaction and can deduct income-tax based on his PAN.

Q.6 What would be the process of tax deduction at source in the absence of TAN?

Ans: The taxpayer can deduct tax at source by furnishing PAN based challan cum statement as may be notified. The process of tax deduction and reporting shall now be similar irrespective of whether seller is a resident or a non-resident

Q.7 From which date will the above amendment be effective?

Ans: The amendments are proposed to be made effective from 1st October, 2026.

***X. Due date for crediting employee contribution to the account of the employee in the provident fund, superannuation fund, etc. for the purposes of section 29(1)(e)* of the Income-tax Act, 2025**

Q.1 What are the provisions of section 29(1)(e) of the Income-tax Act, 2025?

Ans: Section 29(1)(e) allows for deduction of any amount of contribution received by the employer (being the assessee) from the employee, if such amount is credited to the employees' account within the due date.

Q.2 What is the "due date" as per the existing provisions of the Income-tax Act, 2025?

Ans: As per the existing provisions of the Act, the term "due date" denotes the date under the Acts and rules governing approved provident fund, superannuation fund or any fund set up under ESI Act within which amount of contribution received from employee shall be credited.

Q.3 What are the changes proposed in Finance Bill, 2026 with regard to the "due date"?

Ans: It has been proposed that any amount of contribution received from employee by the employer (being the assessee), towards any approved provident fund, superannuation fund or any fund set up under ESI Act shall be allowed as deduction if such amount is credited to the relevant fund, on or before the due date of filing of return of income under section 263(1) of the Income-tax Act, 2025 which is applicable for the employer.

Q.4 Why is an extended date being given for payment of PF/ESI contributions deducted from employees?

Ans: At present, payment of employer's contribution to PF/ESI is allowed as deduction, if such amount is actually paid on or before the due date of filing of return of income under section 263(1) of the Income-tax Act, 2025 for the employer. Whereas payment of employee contribution is allowed as deduction, if amount is paid within the due date of relevant fund.

The relevant Acts provide same date for payment of employee as well as employer contribution i.e. 15 days from end of the calendar month in which wages are paid.

Thus, the change is proposed to align the due date for employee contribution with that of employer contribution as there is no such distinction in the relevant Acts. Further there are adequate compliance provisions embedded in the respective Acts to persuade compliance on part of the employer.

Q.5 From when will these changes be made effective?

Ans: The amendments are proposed to be made effective from 1st April, 2026.

XI. Rationalizing the provision for allowability of deduction under section 35(b)(i) and (ii)* of the Income-tax Act, 2025 *for insurance business other than life insurance business

Q. Which provisions of the Income-tax Act, 2025 provide for the computation of profits and gains of insurance business other than life insurance business?

Ans: Section 55 read with Part B of Schedule XIV of the Income-tax Act, 2025 provide for the computation of profits and gains of insurance business other than life insurance business.

Q.2 How the computation of profit and gains is done for aforesaid insurance business?

Ans: Part B of Schedule XIV of the Income-tax Act, 2025 provides the manner for computation of profit and gains of such business. It provides that any amount inadmissible under section 28 to 54 of the Income-tax Act, 2025 shall be added back to the profits and gains.

Further, sub-paragraph (2) of paragraph (4) provides that any amount which was added back under section 37 of the Income-tax Act, 2025, shall be allowed as a deduction in the tax year in which it is actually paid.

Q.3 What is the change proposed in Schedule XIV of the of the Income-tax Act, 2025?

Ans: It is proposed that any amount which was added back due to it being non-deductible u/s 35(b)(i) or 35(b)(ii) [amount not allowed as deduction due to non-deduction or payment of TDS on such amount as per said section] of the Income-tax Act, 2025 to non-life insurance business, shall be allowed as deduction in a tax year in accordance with the provisions of section 35(b)(i) or 35(b)(ii) of the Income-tax Act, 2025 to such business.

Q.4 What will be the impact of such change?

Ans: If any amount on which tax was not deducted and paid at source as per provisions of section 35(b)(i) or 35(b)(ii) of the Income-tax Act, 2025 and in any subsequent tax year, the said tax is deducted and paid, the said amount will be allowed as deduction in that subsequent tax year.

Q.5 Will this amendment be prospective?

Ans: Yes, the amendment will be prospective and will be applicable from 01.04.26 for tax year 2026-27 and subsequent tax years.

Q.6 From when the said amendment in Schedule XIV of the Income-tax Act, 2025 be made effective?

Ans: The said amendment shall be made effective from 1st April, 2026.

XII. Foreign Assets of Small Taxpayers – Disclosure Scheme 2026 (FAST-DS)

Q.1 What is the Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026?

Ans: The Scheme provides a one-time opportunity to eligible taxpayers to disclose specified foreign income and assets either not taxed or not reported in the return of income, on payment of tax or fee, with immunity from further tax, penalty and prosecution under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015.

Q.2 Who is eligible to make a declaration under this Scheme?

Ans: Any person who is or was a resident in India in the relevant period and who satisfies the conditions specified in the Scheme may make a declaration. This includes persons who are presently non-resident or not ordinarily resident but were resident in India when the undisclosed foreign income accrued or when the foreign asset was acquired.

Q.3 Who are the people who can take advantage of this scheme?

Ans: Many taxpayers can take advantage of this scheme, including but not limited to –

- employees of multinational technology companies receiving ESOPs or RSUs from foreign employers who have not reported such assets;
- former students retaining dormant or low-balance foreign bank accounts after completion of studies abroad;
- returning non-residents with undisclosed foreign savings or insurance policies; and
- mission employees or other personnel on deputation abroad.

Q.4 What types of income or assets can be disclosed under the Scheme?

Ans: The Scheme covers—

(a) undisclosed foreign income;

(b) undisclosed assets located outside India; and

(c) specified foreign assets acquired from foreign income when assessee was a non-resident or from income already offered to tax in India, which have not been reported in the relevant Schedule of the return of income.

Q.5 What is the "undisclosed foreign income" that can be declared under the Scheme?

Ans: It is defined as the total amount of income of an assessee from a source located outside India which should have been taxed in India but has not been offered to tax.

Q.6 What is the "undisclosed assets located outside India" that can be declared?

Ans: It is defined as an asset (including financial interest in any entity) located outside India, held by the assessee in his name or as a beneficial owner, but he has no explanation about the source of investment in such asset.

Q.7 What are the monetary limits to be eligible under the Scheme?

Ans: For “undisclosed assets located outside India” or “undisclosed foreign income”, the Scheme applies where the aggregate value does not exceed ₹ 1 Crore as on 31st march 2026.

Q.8 What are the monetary limits under this scheme for foreign assets that were taxed but not reported?

Ans: For foreign assets acquired from disclosed income or during status as a non-resident, the value of the asset must not exceed ₹ 5 Crore as on 31st March 2026.

Q.9 What is the amount payable where “undisclosed assets located outside India” or “undisclosed foreign income” are declared?

Ans: The declarant is required to pay tax at the rate of 30 per cent of the value of the undisclosed foreign asset as on 31 March 2026 or of the undisclosed foreign income, as the case may be, together with an additional amount equal to 100 per cent of such tax. The total amount payable will be 60% of the value of the asset or foreign income, as the case may be.

Q.10 What is the amount payable where the foreign asset is explained but not reported?

Ans: Where the foreign asset was acquired during non-resident status or from income already offered to tax in India but was not disclosed in the relevant return schedules, a flat fee of ₹ 1 Lakh is payable, subject to the value threshold.

Q.11 If there is a non-declaration of same asset in multiple years will the fee of Rs 1 lakh be chargeable for all the years or one year only?

Ans: If the asset is same, then only one time fee would be chargeable and would be applicable for the first year of non-disclosure. Thereafter it would be deemed that the asset remains disclosed. However, if there are assets that were acquired in multiple years, then fee would be chargeable for corresponding first years when the asset was undisclosed.

Q.12 What is the manner of making a declaration under the Scheme?

Ans: A declaration under the Scheme shall be made electronically in the prescribed form and verified in the prescribed manner, within the period notified by the Central Government.

Q.13 How is the amount payable under the Scheme determined?

Ans: After electronic verification of eligibility and the declaration, the prescribed Income-tax authority shall communicate the amount payable by way of an order within one month from the end of the month in which the declaration is furnished.

Q.14 What is the time limit for payment of the amount determined?

Ans: The declarant is required to pay the amount determined within two months from the end of the month in which the order is received. A further extension of two months is permitted, and no extension beyond this period is allowed.

Q.15 Is any interest payable for delayed payment?

Ans: Yes. Where payment is made during the extended period of two months, simple interest at the rate of 1% for every month or part of a month is payable on the unpaid amount.

Q.16 What happens after payment is made?

Ans: Upon payment and intimation thereof in the prescribed form, an order certifying payment under the Scheme shall be issued electronically. Such order is conclusive as to the matters stated therein.

Q.17 Does the Scheme grant immunity from penalty and prosecution?

Ans: Yes. A declarant who makes a valid declaration and pays the prescribed amount shall be granted immunity from levy of tax, penalty and prosecution under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 in respect of the income or asset so declared.

Q.18 Are there any exclusions where the Scheme shall not apply?

Ans: Yes. The Scheme does not apply to income or assets representing proceeds of crime under the Prevention of Money Laundering Act, 2002, or to cases where assessment proceedings under the Black Money Act have already been completed.

Q.19 How are pending assessment proceedings affected?

Ans: Where assessment proceedings under the Income-tax Act, 2025 are pending in respect of the declared income or asset, the Assessing Officer shall take the declaration into account while finalizing such proceedings.

Q.20 Can a declaration be made for more than one foreign asset or income item?

Ans: Yes. A single declaration may include multiple items of undisclosed foreign income or foreign assets, subject to compliance with the monetary limits and other conditions specified under the Scheme.

Q.21 How is the value of an undisclosed foreign asset to be determined for the purposes of the Scheme?

Ans: The value of an undisclosed foreign asset shall be determined in accordance with the valuation rules prescribed under the Scheme, having regard to the nature of the asset and the relevant valuation date.

Q.22 How will cases of misrepresentation or suppression of facts be dealt with?

Ans: Where a declaration is found to be false or contains material misrepresentation or suppression of facts, the declaration shall be void and the provisions of the applicable law shall apply as if no declaration had been made.

Q.23 Who is the competent authority for administering the Scheme?

Ans: The Scheme shall be administered by such income-tax authorities as may be notified by the Central Government.

Q.24 What is the last date for making a declaration under the Scheme?

Ans: The last date for the Scheme shall be such date as may be notified by the Central Government in the Official Gazette. The declarations can be made only within the period so notified.

Q.25 From when will the Scheme come into force?

Ans: The Scheme shall come into force on such date as may be notified by the Central Government in the Official Gazette.

RATIONALISING PENALTY AND PROSECUTION

XIII. Combining of assessment order and penalty order

Q.1 In the present scheme of things how assessment order is passed and penalty is imposed in the Income-tax Act, 2025?

Ans: In the present scheme of things first an assessment order is passed and based on the findings/ additions made in it and subject to the status of appellate proceedings- penalty is initiated in the assessment order by the Assessing Officer. Subsequently, separate penalty proceedings are initiated by giving a show cause notice which results in passing of a separate penalty order after giving due opportunity to the assessee. This triggers yet another chain of appellate proceedings.

Q.2 What are the proposed changes in Finance Bill, 2026 with respect to assessment and penalty proceedings?

Ans: It is proposed that where penalty is proposed to be levied under section 439 of the Income-tax Act, 2025, in those cases, a common order of assessment and penalty will be passed. However, the assessee will be given adequate opportunity as outlined in the proposed amended sections 474, 411, and 379 of the Income-tax Act, 2025 before passing the composite order.

Q.3 Whether such proposal would be applicable for all the assessments or penalty proceedings those are pending as on 01.04.2026?

Ans: No. For the Income-tax Act, 1961, the proposed amendment will be applicable where assessment under section 143 or reassessment under section 147 or any draft of the proposed order of assessment under section 144C is made on or after 1st of April, 2027, where penalty is proposed to be levied under section 270A.

While for Income-tax Act, 2025, the proposed amendment will be applicable where any draft of the proposed order of assessment under section 275 is made or assessment under section 270 or reassessment under section 279 is made on or after 1st of April, 2027, where penalty is proposed to be levied under section 439.

Q.4 Whether such proposal would be applicable for draft assessments made under section 144C of the Income-tax Act, 1961?

Ans: Yes. The proposal will be applicable even in cases where any draft of assessment order is required to be made under section 144C of the Income-tax Act, 1961. However, this will be applicable only for those draft assessment which are made on or after 1st of April, 2027. Further, the proposal will also be applicable even in cases where any draft of assessment order is required to be made under section 275 of the Income-tax Act, 2025. However, this will be applicable only for those draft assessment which are made on or after 1st of April, 2027.

Q.5 What will be the effective date for above proposal in Income-tax Act, 1961?

Ans: The effective date of the proposed amendments will be 1st of April 2027 for Income-tax Act, 1961 and will be applicable where any draft of the proposed order of assessment under section 144C is made or assessment under section 143 or reassessment under section 147 is made on or after 1st of April, 2027.

Q.6 What will be the effective date for above proposal in Income-tax Act, 2025?

Ans: The effective date of the proposed amendments will be 1st of April 2027 for Income-tax Act, 2025 and will be applicable where any draft of the proposed order of assessment under section 275 is made or assessment under section 270 or reassessment under section 279 is made on or after 1st of April, 2027

XIV. Expansion of scope of immunity on levy of penalty or prosecution

Q.1 What is the current scope for granting of immunity from penalty or prosecution under the provisions of Income-tax Act, 2025?

Ans: Section 440 of the Income-tax Act, 2025 allows an assessee to seek immunity from the imposition of penalty under Section 439 of the Income-tax Act, 2025 and from initiation of prosecution proceedings under Sections 478/479 of the Income-tax Act, 2025 relating to under-reporting of income**,** if specified conditions are met.

Q.2 Who can apply for such immunity?

Ans: Any taxpayer on whose case an assessment or reassessment order has been made under the relevant provisions, and has paid the tax and interest due within the demand period, and has not filed an appeal against that order may apply.

Q.3 What are the conditions for granting immunity under Section 440 of the Income-tax Act, 2025?

Ans: The key conditions are:

(a) full payment of tax and interest as per the order within the specified timeframe, or additional-tax as the case maybe.

(b) no appeal is filed against that order.

Q.4 What is the time limit to file the application for seeking such immunity?

Ans: In order to seek immunity, an application must be filed in the prescribed form and manner **within one month from the end of the month** in which the assessment/reassessment order is received.

Q.5 What happens after an application is filed?

Ans: The Assessing Officer shall make a decision within three months from the end of the month in which the application was received. However, depending upon fulfilment or non-fulfilment of conditions, the application could be accepted or rejected.

Q.6 What are the circumstances where immunity is not allowed?

Ans: As per the current provisions, granting of such immunity is not available for cases where penalty proceedings have a been initiated for under-reporting in consequence of misreporting of income.

Q.7 What are the proposed changes in section 440 of the Income-tax Act, 2025 in Finance Bill 2026?

Ans: The scope of granting of immunity under section 440 of the Income-tax Act, 2025 is proposed to be expanded to cover all such cases where penalty proceedings are initiated for under-reporting in consequence of misreporting of income - provided the tax payer pays an additional income-tax as specified in lieu of such penalty.

Q.8 Who will be allowed to apply for granting of immunity as per the proposed changes?

Ans: The proposed expansion of the scope of under section 440 of the Income-tax Act, 2025 would cover all cases where penalty proceedings are initiated either for under-reporting income or for under-reporting income in consequence of misreporting. However, the taxpayer would be required to pay an additional income-tax in lieu of penalty as prescribed for being eligible for granting an immunity for misreporting of income.

XV. Conversion of Penalty to fee

Q.1 What are the proposed changes in respect of penalty for non-audit/late of accounts or failure/late furnishing of a statement of financial transaction (SFT) or reportable account?

Ans: Penalty under section 446 and 454 of the Income-tax Act, 2025 is proposed to be converted into fee.

Q.2 Presently, what is the default covered under Section 446 of the Income-tax Act, 2025?

Ans: Section 446 of the Income-tax Act, 2025 is invoked where a person fails to get accounts audited as required under the Act. The Assessing Officer may impose a penalty under the provisions of the Act, subject to conditions prescribed therein.

Q.3 When is Section 447 of the Income-tax Act, 2025 attracted?

Ans: It applies where a person fails to furnish an accountant's report required under specified provisions of the Act.

Q.4 Presently, what does Section 454 of the Income-tax Act, 2025 deal with?

Ans: Section 454 of the Income-tax Act, 2025 provides for penalty where a person fails to furnish a statement of financial transaction (SFT) or reportable account. Any reporting entity or person required under the Income-tax Act, 2025 to furnish such statements is liable for penalty on such default.

Q.5 What are the proposed changes in section 446 and 428 of the Income-tax Act, 2025 in Finance Bill, 2026?

Ans: Penalty under section 446 of the Income-tax Act, 2025 is proposed to be levied as a fee in lieu of such penalty, by inserting the same in proposed section 428(3) of the Income-tax Act, 2025.

Q.6 What is the fee payable under proposed Section 428(3) of the Income-tax Act, 2025 in Finance Bill, 2026?

Ans: The fee is proposed to be a sum of ₹ 75,000 for a delay upto one month for which such failure continues and a sum of ₹ 1,50,000 thereafter.

Q.7 What are the proposed changes in section 447 and 428 of the Income-tax Act, 2025 in Finance Bill, 2026?

Ans: Penalty under section 447 of the Income-tax Act, 2025 is converted to a fee, by inserting the same in proposed section 428(4) of the Income-tax Act, 2025.

Q.8 What is the fee payable under proposed Section 428(4) of the Income-tax Act, 2025 in Finance Bill, 2026?

Ans: The fee is proposed to be a sum of ₹ 50,000 for a delay upto one month for which such failure continues and a sum of ₹ 1,00,000 thereafter.

Q.9 What are the proposed changes in section 454 and 427 of the Income-tax Act, 2025 in Finance Bill, 2026?

Ans: Penalty under section 454(1) of the Income-tax Act, 202 is proposed to be levied as a fee instead of the existing penalty, by inserting the same in proposed section 427(3) of the Income-tax Act, 2025. Further, such fee under section 454(2) of the Income-tax Act, 2025 is also proposed to be capped at ₹ 100000.

Q.10 What is the fee payable under proposed Section 427(3) of the Income-tax Act, 2025 in Finance Bill, 2026?

Ans: The fee is proposed to be a sum of ₹ 200 for every day for which such failure continues and such fee shall not exceed a sum of ₹ 100000.

Q.11 Are the above proposed fee in the Income-tax Act, 2025 in Finance Bill, 2026, will be automatically levied?

Ans: The fees are proposed to be levied automatically.

Q.12 Will the reasonable clause under section 470 of the Income-tax Act, 2025 be available for the levy of fee?

Ans: No. As the fee is proposed to be charged automatically, the need for reasonable clause is not required.

XVI. Partial Decriminalisation of Certain Prosecution Provisions of Income-tax Act, 2025

Q.1 Which provisions of Income-tax Act, 2025 related to prosecutions are being amended via Finance Bill 2026?

Ans: Section 475 to 478 & 494 of Income-tax Act, 2025 are being amended to partially decriminalise certain offences, fully decriminalise certain offences and change the nature and period of punishment prescribed therein.

Q.2 What is the broad philosophy that has been followed for decriminalisation of various offences?

Ans: Amendments made in prosecution provisions is part of continued exercise of decriminalisation followed by Department over the years to make the Income-tax Act, 2025 less decriminalised and make the punishment for the offences proportionate to the crimes. The principles that are followed in this exercise are as follows:

i) nature of punishment is changed from rigorous imprisonment to simple imprisonment;
ii) maximum punishment is proposed to be limited to 2 years;
iii) new grading of offences and its corresponding new punishment is proposed wherever punishment of offences is based on grading of amount of tax evaded;
iv) if amount of tax evaded does not exceeds ten lakh rupees, punishment of only fine is proposed;
v) Imposition of fine is introduced in lieu of or in addition of imprisonment;
vi) certain offences are fully decriminalized.

Q.3 What are the changes proposed regarding maximum punishment for offences under Income-tax Act, 2025?

Ans: The maximum punishment for any offences is brought down from its current 7 years to 2 years and punishment for subsequent offences has been brought down from its current 7 years to 3 years.

Q.4 What changes are carried out in grading (amount of tax) based punishment for offences in Income-tax Act, 2025?

Ans: The earlier grading of Rs 25 lakhs has been changed to new grading. Now, the punishment for offences in case amount of tax involved exceeds 50 lakhs rupees, shall be maximum 2 years; punishment in case amount of tax involved exceeds 10 lakhs rupees but does not exceed 50 lakhs rupees shall be maximum 6 months; and punishment in case amount of tax involved does not exceeds 10 lakhs rupees shall be only fine.

Q.5 What is the rationale of new grading of amount of tax?

Ans: The rationale of the grading is to rationalize the extent of punishment so as to persuade compliance. While prosecution leading to imprisonment as a punishment has been kept for offences involving deliberate disobedience and high tax evasion, the punishment has been kept monetary where the default is of lower value. New grading system is progressive and inclusive in nature and keeping in view global practice as well as the spirit of Jan Viswas.

Q.6 What changes are being carried out related to nature of punishment and fines in prosecution provisions in Income-tax Act, 2025?

Ans: The nature of punishment has been changed from rigorous punishment to simple imprisonment in section 475 to 478 & 494 of Income-tax Act, 2025. In case of certain offences, Imposition of fine is introduced in lieu of or in addition of imprisonment.

Q.7 What shall be the date of implementation of amendments in prosecution provisions in Income-tax Act, 2025

Ans: Amendments made in prosecution provisions under section 473 to 485 & 490 of the Income-tax Act, 2025 shall be effective from 1st April, 2026.

Q.8 What happens to the prosecution provisions of Income-tax Act, 1961 after Income-tax Act 2025 implemented from 01.04.2026?

Ans: Similar amendments in prosecution provisions, made in Income-tax Act, 2025 are also being carried out in corresponding provisions i.e. section 275A to 278A & 280 of Income-tax Act, 1961.

Q.9 What is the punishment for non-payment of TDS/TCS to the Government?

Ans: The maximum punishment for non-payment of TDS/TCS after amendments shall be 2 years and the minimum punishment shall be fine.

Q.10 What offences under Income-tax Act, 2025 are fully decriminalised?

Ans: (a) Offence wherein a person fails to produce the accounts and documents as referred in section 481 of Income-tax Act, 2025 is fully decriminalised.

(b) If a person fails to pay the tax deducted at source or ensure the payment of such tax, in case of winnings from Lottery or crossword puzzle etc as required under section 476(1)(b)(i) of the Income-tax Act, 2025 and if a person fails to pay and ensure payment of tax deducted at source in case of benefits or perquisite under section 476(1)(b)(ii) of the Income-tax Act, 2025 then the punishment for these offences is rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine. These offences are proposed to be fully decriminalized.

(c) In similar manner, if a person fails to pay tax deducted at source or ensure payment of tax in case of winnings from online games under section 476(1)(b)(i) of the Income-tax Act, 2025 and consideration from virtual digital asset under section 476(1)(b)(ii) of the Income-tax Act, 2025 then these offences attract punishment of rigorous imprisonment for a term which shall not be less than three months but which may extend to seven years, and with fine. In these cases, winnings from online games and consideration from virtual digital asset which are wholly in kind are also proposed to be excluded from criminal liability related to prosecution in case of failure to pay tax or ensure payment of tax.

Q.11 Will compounding be continued to be available for all offences?

Ans: Yes, there is no change in compounding of offences.

XVII. Rationalization of tax rate and penalty on certain income

Q.1 Please explain the scope of Section 195 of the Income-tax Act, 2025?

Ans: Section 195 of the Income-tax Act, 2025 (hereinafter referred as 'the Act') provides for tax on income referred to in section 102 to 106 of the Income-tax Act, 2025 such as unexplained credits, unexplained investments, unexplained assets or unexplained expenditure and amount borrowed or repaid through hundi, etc. Under the current position, the tax rate applicable on such income is at the rate of 60%.

Q.2 What is the scope of penalty under section 443 of the Income-tax Act, 2025?

Ans: Section 443 of the Income-tax Act, 2025 provides that, penalty amounting to 10% of the tax payable under section 195(1)(i) of the Income-tax Act, 2025, on an assessee if the income determined in his case for any tax year includes any income referred to in section 102,103,104,105 or 106.

Q.3 What does section 439 of the Income-tax Act, 2025 deal with?

Ans: Further, section 439 of the Income-tax Act, 2025 provides the penalty for under-reporting and misreporting of income.

Q.4 What are the proposed changes in the tax rate under section 195 of the Income-tax Act, 2025 in Finance Bill, 2026.

Ans: The tax rate on income reported by the taxpayer or determined by Assessing Officer in respect of income referred to in section 102 to 106 of the Income-tax Act, 2025 like unexplained credits, unexplained investment etc is reduced from 60 percent to 30 percent.

Q.5 What are the proposed changes with respect to penalty provision on certain income under section 443 of the Income-tax Act, 2025?

Ans: As the tax rate on certain income is rationalized to 30 percent, therefore the penalty under section 443 of the Income-tax Act, 2025 is proposed to be subsumed in the penalty for misreporting under section 439.

Q.6 Whether penalty under section 439 of the Income-tax Act, 2025 be imposable in respect of income under section 102-106 of the Income-tax Act, 2025, if the taxpayer has suo-moto shown in the ITR?

Ans: No, in such case no penalty shall be levied.

Q.7 In case the taxpayer subsequent to determination of Income under section 102-106 of the Income-tax Act, 2025 by the assessing officer, wishes to settle, the dispute then what will be the additional-tax?

Ans: In such case, additional income-tax amounting to one hundred and twenty percent of the amount of tax payable on under-reported income.

Q.8 Now that penalty on certain income is proposed to be imposed under misreporting, whether the assessee will be eligible to make an application for immunity.

Ans: Yes, assessee will be eligible to make an application for immunity from prosecution and waiver of penalty, subject to the conditions specified therein.

<u>XVIII. Rationalisation of block period and reference point of search assessment</u>

Q.1 What is section 295 of the Income-tax Act, 2025?

Ans: Section 295 of the Income-tax Act, 2025 (hereinafter referred as 'the Act') provides for taxing undisclosed income where Assessing officer is satisfied that any undisclosed income belongs to or pertains to or relates to any person in whose case search is not initiated or requisition is not made (herein after referred to as the 'other person'),

Q.2 How is block period is defined and in what section?

Ans: Block period is defined in section 301(a) of the Income-tax Act, 2025. The block period consists of the combined period of six tax years before the tax year in which a search/requisition is made, plus the period from the start of the tax year of the search up to the execution of the last authorisation.

Q.3 What are the proposed changes in section 295 of the Income-tax Act, 2025 in the Finance Bill 2026?

Ans: It is proposed to limit the period of block in case of non-search person, where undisclosed income pertains to only one tax year. Following will be the definition of the block period where the undisclosed income in case of other person belongs to:

i) either year of search or tax year immediately preceding the year of search: then the period of block will be tax year immediately preceding the year of search or requisition and from starting from 1st April of the searched year and ending on the date of initiation of search or making of requisition.
ii) any one year except the year immediately preceding the year in which search was initiated or requisition was made: comprise of only that single tax year.
iii) multiple years: then the block period will comprise of 6 tax years preceding the tax year in which search was initiated or any requisition was made and the period starting from 1st April of the searched year and ending on the date of execution of last of the authorisations for such search or such requisition.

Q.4 What is section 296 of the Income-tax Act, 2025?

Ans: Section 296 of the Income-tax Act, 2025 provides for time limit for completing a block assessment**.** An assessment or reassessment order under Section 294 of the Income-tax Act, 2025 (procedure for block assessment) *must be completed* within 12 months from the end of the quarter in which the last search authorization was executed or requisition was made**.**

Q.5 What are the proposed changes in section 296 of the Income-tax Act, 2025 is Finance Bill, 2026?

Ans: Section 296 of the Income-tax Act, 2025 is proposed to be amended so as to take the date of initiation of search as the reference point to decide the date of limitation for block assessment and consequently, the period of twelve months is proposed to be to eighteen months.

XIX. Updated Return

Q.1 What is an "Updated Return" under the Income-tax Act, 2025?

Ans: Section 263(6) of the Income-tax Act, 2025 provides for furnishing of an updated return of income. An updated return is a return that may be furnished by a person, whether or not a Original, revised, or belated return has been earlier furnished, to voluntarily disclose any income that was not reported or was inaccurately reported before, as long as certain conditions specified in the Income-tax Act, 2025 are met.

Q.2 Who can furnish an Updated Return and within what time limit?

Ans: Any person may furnish an updated return of income or income of any other person for whom he is assessable, within forty-eight months from the end of the financial year succeeding the relevant tax year, as provided under section 263(6)(a) of the Income-tax Act, 2025. Such return may be furnished even if no original, belated or revised return was filed earlier, subject to the exclusions specified in section 263 of the Income-tax Act, 2025.

Q.3 What additional tax is payable while furnishing an Updated Return?

Ans: In addition to tax and interest payable under the Act, an assessee furnishing an updated return is required to pay **additional income-tax** on additional income disclosed in the updated ITR when compared with the corresponding income in original, revised or belated ITR at the following rates:

- **25%** of aggregate tax and interest, if the updated return is furnished after the due date of filing the revised ITR and within 12 months of the end of the financial year following the corresponding tax year;
- **50%**, if furnished after 12 months but before 24 months of the period indicated above;
- **60%**, if furnished after 24 months but before 36 months of the period indicated above;
- **70%**, if furnished after 36 months but before 48 months of the period indicated above,

Q.4 What are the provisions relating to updation of income in respect of the updated return?

Ans: Section 263(6)(b) of the Income-tax Act, 2025 provides that taxpayers may file the updated return in such cases where original return filed under section 263(1) of the Income-tax Act, 2025 shows a loss, and updated return being filed thereafter, shows income. However, section 263(6)(c)(i) of the Income-tax Act, 2025 restricts filing of updated return when the updated return is a return of loss for the said tax year. Therefore, presently the updated ITR cannot be filed if the earlier ITR is a return of loss and the loss is proposed to be reduced through filing of updated ITR.

Q.5 What are the proposed changes in the budget, 2026 in respect of the scope of filing of the updated return?

Ans: An amendment is proposed in Section 263 of the Income-tax Act, 2025 to allow taxpayers to file an updated return in cases where they reduce the amount of loss compared to the loss claimed in the original return filed by the specified due date.

Q.6 What are the proposed changes in the budget, 2026 for filing the updated return in response of notice of reassessment issued under section 280 of the Income-tax Act, 2025?

Ans: Section 263(6)(c)(v) of the Income-tax Act, 2025 prohibits filing of an updated return in cases where any proceedings for assessment, reassessment, recomputation, or revision of income are pending or have been completed for the tax year in question.

In this regard, amendment is proposed so as to allow filing of an updated return also in such cases where reassessment proceeding have been initiated for the relevant tax year in pursuance of a notice issued under section 280 of the Income-tax Act, 2025. Such updated return is required to be filed within such period as specified in the said notice. Consequent to filing such return, no penalty shall be imposed in respect of income reported in such updated ITR

Q.7 What is the additional amount to be paid in the case of updated return filed in response of notice issued under section 280 of the Income-tax Act, 2025?

Ans: Where an updated return is filed in pursuance of a notice issued under section 280, the additional income-tax payable shall be increased by a further sum of 10 % of the aggregate of tax and interest payable. i.e. total additional income-tax shall be:

- **35% (25% + 10%)** of aggregate of tax and interest, if the updated return is furnished within 12 months;
- **60% (50% + 10%)** if furnished after 12 months but before 24 months;
- **70% (60% + 10%)** if furnished after 24 months but before 36 months;
- **80% (70% + 10%)** if furnished after 36 months but before 48 months,

from the end of the financial year succeeding the relevant tax year.

Q.8 Whether reassessment proceedings be abated upon filing of an updated return?

Ans: No. The reassessment proceedings will not be abated upon filing of updated return. However, no penalty of under-reporting or misreporting of income will be imposed on such income which have been disclosed in the updated return filed in response of notice issued under section 280 of the Income-tax Act, 2025.

Q.9 When can someone file the updated return for reducing the loss and updated return in response of notice of reassessment issued under section 280 of the Income-tax Act, 2025?

Ans: The updated return in these cases may be filed after the enactment of the Finance Act, 2026.

Q.10 Will there be a requirement to make any payment or any fee?

Ans: There is no fee prescribed for filing of update return. Thus, no additional fee is required to be made for filing of updated return in the case of expanded scope.

XX. Black Money Act – Rationalisation of Prosecution (section 49 and 50 of Black Money Act)

Q.1 Under the Black Money Act, what are the provisions for penalty for non-disclosure of foreign assets?

Ans: Under the existing provisions of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015,

- **Penalty** under sections 42 and 43 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 may be levied where a resident willfully fails to furnish a return of income or willfully omits to disclose foreign income or assets (other than immovable property), where the total value of such assets exceed Rs 20 Lakhs.
- **Prosecution** under sections 49 and 50 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 may be initiated where a resident willfully fails to furnish a return of income or willfully omits to disclose foreign income or assets, irrespective of the value of such asset.

Q.2 What changes are being made under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015?

Ans: Sections 49 and 50 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 have been amended to provide that prosecution under these sections will not be initiated where the total value of such assets (other than immovable property) does not exceed Rs 20 Lakhs.

Q.3 Does the amendment apply to immovable property?

Ans: No, the exclusion from prosecution does not apply to immovable property. Prosecution under sections 49 and 50 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 shall continue to apply in respect of non-disclosure of foreign immovable property, irrespective of its value.

Q.4 How shall the monetary threshold of Rs 20 Lakhs be computed for the purpose of these provisions?

Ans: The threshold of Rs 20 lakhs shall be computed by aggregating the value of all foreign assets held by the assessee, other than immovable property.

Q.5 If a person owns land overseas of Rs 12 lakhs, shares in an overseas company of Rs 5 Lakhs and a Bank account with balance of Rs 10 Lakhs, will the penalty and prosecution provisions be applicable on these assets for non-disclosure?

Ans: In the case of land, since it is an immovable property, non-disclosure of such asset is liable to penalty and prosecution even though it is less than Rs 20 Lakhs. In the case of Bank account and shares, since the total value is less than Rs 20 lakhs, the provisions of penalty and prosecution will not be attracted.

Q.6 From which date shall the amended provisions apply?

Ans: These amendments shall take effect retrospectively from the 1st day of October, 2024, i.e. from the date when the amendments in the penalty provisions (sections 42 & 43 of the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015) were brought into the statute, subject to the above-mentioned monetary threshold.

XXI. Increasing threshold of penalty to be imposed under section 466

Q.1 What does Section 466 of the Income-tax Act, 2025 deal with?

Ans: Section 466 of the Income-tax Act, 2025 provides for the imposition of a penalty if a person fails to comply with the provisions of Section 254 of the Income-tax Act, 2025 relating to collection of certain information.

Q.2 What is the maximum amount of penalty that can be imposed under this section at present?

Ans: The penalty imposable under Section 466 of the Income-tax Act, 2025 may extend up to ₹1,000.

Q.3 Who can impose the penalty?

Ans: The penalty may be imposed by the Joint Commissioner, Deputy Director, Assistant Director, or the Assessing Officer.

Q.4 What are the proposed changes in section 466 of the Income-tax Act, 2025 in finance Bill 2026?

Ans: It is proposed to increase the maximum amount of penalty under section 466 of the Income-tax Act, 2025 from ₹1,000 to ₹25,000.

***XXII. Imposition of penalty for non-furnishing or inaccurate furnishing of information on transactions of crypto-assets under section 446* of the Income-tax Act, 2025**

Q.1 What are the provisions related to reporting of transaction in respect of crypto-assets?

Ans: Section 509 of the Income-tax Act, 2025 provides that prescribed reporting entity shall have the obligation to furnish statement of transactions in respect of crypto assets within prescribed time.

Q.2 Is there any penal mechanism to ensure that the Reporting Entity furnishes accurate and timely information in the statement of transactions in crypto assets?

Ans: No. There is no penal provision in the Income-tax Act, 2025 to ensure accurate and timely information in such statement.

Q.3 What change is being proposed in Finance Bill 2026?

Ans: A new penalty section is proposed to be inserted in the Income-tax Act, 2025 for failure to furnish statement (Rs 200 per day for which the failure continues) and for furnishing inaccurate information (Rs. 50000) in a statement on transaction of crypto-asset under section 509 of the Income-tax Act, 2025.

Q.4 Why is the penalty provision proposed to be introduced?

Ans: It is proposed to be introduced to ensure compliance on part of the respective Reporting Entities as regards furnishing of statement and refraining them from furnishing inaccurate information in a statement.

Q.5 From which date will the above amendment be effective?

Ans: The amendments are proposed to be made effective from 1st April, 2026.

COOPERATIVES

XXIII. Inclusion of Cooperative societies registered under under the Multi-State Cooperative Societies Act, 2002.

Q.1 What is the meaning of a "co-operative society" under the present provisions of Section 2(32) of the Income-tax Act, 2025?

Ans: Under Section 2(32), a "co-operative society" refers to any cooperative entity that is registered under one of the following laws:

- The Co-operative Societies Act, 1912; or
- Any other law currently in force in a State or Union Territory governing the registration of cooperative societies.

Q.2 What is the proposed amendment to the definition of "co-operative society" in the Finance Bill, 2026?

Ans: In the Finance Bil, 2026, a cooperative entity that is registered under the Multi-State Cooperative Societies Act, 2002; is also added to the definition of cooperative societies. This definition ensures recognition of cooperatives across various statutory frameworks.

Q.3 Are societies registered under Multi-unit Co-operative Societies Act, 1942 (6 of 1942) or the Multi-State Co-operative Societies Act, 1984 (51 of 1984) included under this definition?

Ans: Yes, the provisions of the Repeal and Savings clause of the Multi-State Cooperative Societies Act, 2002, state that a multi-State co-operative society registered in pursuance of the provisions of the Multi-unit Co-operative Societies Act, 1942 (6 of 1942) or the Multi-State Co-operative Societies Act, 1984 (51 of 1984), shall be deemed to be registered under the corresponding provisions of Multi-State Cooperative Societies Act, 2002 itself. Therefore, all these societies will also be included in this definition.

<u>XXIV. Deduction of profit and gains to a primary co-operative where they supply cattle feed and cotton seed to a federal co-operative.</u>

Q.1 What items of supply are presently eligible for deduction in the case of primary co-operative society under section 149(2)(b) of the Income-tax Act, 2025?

Ans: Presently, the exemption applies only to primary co-operative societies that are engaged in supplying milk, oilseeds, fruits, or vegetables which are raised or grown by their members. Only societies meeting both the "primary society" and "member-grown produce" criteria qualify.

Q.2 What items of supply are proposed to be added in the proposed amendment of Section 149(2)(b) of the Income-tax Act, 2025?

Ans: The deduction is proposed to apply also to supply of **cotton seed and cattle feed**.

Q.3 What is the deduction available to co-operative societies under Section 149(2)(b) of the Income-tax Act, 2025?

Ans: The deduction is available on the profit and gains earned from the business of supplying milk, oilseeds, **cotton seed, cattle feed**, fruits, or vegetables which are raised or grown by their members

Q.4 To whom must the primary co-operative society supply its produce in order to claim the exemption under Section 149(2)(b) of the Income-tax Act, 2025?

Ans: To claim the exemption, the society must supply the specified produce to any of the following:

- A federal co-operative society engaged in supplying the same categories of produce;
- The Government or a local authority; or
- A Government company (as per Section 2(45) of the Companies Act, 2013) or a statutory corporation established under a Central, State, or Provincial Act, engaged in supplying the same produce to the public.

Q.5 What is the extent of the exemption provided under Section 149(2)(b) of the Income-tax Act, 2025?

Ans: The section provides exemption for the entire number of profits and gains derived from the qualifying business activities of the primary co-operative society. Thus, the exemption is 100%, subject to fulfilment of statutory conditions.

Q.6 What are the conditions specified for the recipient's business so as to allow the deduction under section 149(2)(b) of the Income-tax Act, 2025?

Ans: The federal co-operative society, Government company, or statutory corporation to which the products are supplied by the primary cooperative society must also be engaged in supplying milk, oilseeds, **cotton seed, cattle feed**, fruits, or vegetables to the public. The exemption is linked not only to the supplier's activities but also to the qualifying nature of the recipient.

XXV. Deduction of inter-cooperative society dividend income under the new tax regime

Q.1 What are the provisions for taxation of dividend received by cooperative societies?

Ans: The dividend received by a cooperative society from a company is taxed in the hands of the cooperative society.

The dividend received by a cooperative society from any other co-operative society is allowed as a deduction in the hands of the cooperative society under the provisions of section 149(2)(d) of the Income-tax Act, 2025. This deduction is presently allowable to the co-operative society if it is in the old regime

Q.2 What is the key change proposed for inter cooperative societies dividends?

Ans: It is proposed that the deduction for dividends received from other cooperative societies may be allowed under the new tax regime as well. This deduction will be allowed provided that these dividends are further distributed to their members.

XXVI. Deduction of dividend income received by a notified national co-operative federation in the new tax regime

Q.1 What are the provisions proposed under section 150 of the Income-tax Act, 2025?

Ans: Section 150 of the Income-tax Act, 2025 provides a deduction for a notified federal cooperative on the dividend income received from its investments in a company subject to certain conditions.

Q.2 Does the entire dividend income received from companies qualify for deduction under Section 150 of the Income-tax Act, 2025?

Ans: No, only the dividend income received by a notified federal cooperative from investments in a company qualifies, and to the extent that such income meets the conditions regarding investment date and distribution to members.

- The deduction is limited to dividend income arising from investments already recorded in the cooperative's books as of 31 January 2026.
- The deduction is available up to tax year 2028-29. After this period, the benefit will expire.
- The deduction can be claimed only if the dividends received from companies are distributed by the federal cooperative to its members.

Q.3 How many years is this deduction under section 150 of the Income-tax Act, 2025 applicable?

Ans: The deduction under section 150 of the Income-tax Act, 2025 will be applicable only for 3 years, i.e. for tax years 2026-27, 2027-28 and 2028-29.

Q.4 Who is considered a "federal cooperative" for this deduction?

Ans: To be eligible for this deduction, a federal cooperative must:

- Be the same as defined in section 3(k) of the Multi-State Co-operative Societies Act, 2002, and
- Be notified by the Central Government for the purposes of section 150 of the Income-tax Act, 2025.

Q.5 Does every federal cooperative automatically qualify for the deduction?

Ans: No. even if it fits the statutory definition, the cooperative must be specifically notified by the Central Government to avail the benefits of Section 150 of the Income-tax Act, 2025.

Q.6 Is the deduction under section 150 of the Income-tax Act, 2025 available in the new regime?

Ans: Yes, the deduction under section 150 of the Income-tax Act, 2025 is allowed under both the old and new regimes.

Q.7 Is the deduction allowed for dividend on new investments?

Ans: No, the dividends from investments made after 31.01.2026 will not qualify for this deduction. Even if the dividend is received in tax year 2026-27, it should be from an investment made before 31.01.2026 for it to be eligible for deduction.

ATTRACTING GLOBAL BUSINESS and INVESTMENT

XXVII. Exemption: Foreign company on any income arising in India by way of procuring Data Centre Services from a Specified Data Centre [Schedule IV* of the Income-tax Act, 2025*].

Q.1 What amendment has been proposed in respect of data centre?

Ans: A new section has been inserted to provide exemption to a foreign company on 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.

Q.2 Who shall be eligible for exemption under the proposed provision?

Ans: A foreign company notified by the Central Government for the purposes of proposed provision shall be eligible for exemption.

Q.3 What are the necessary condition provided under the proposed provision?

Ans: The significant condition for availing such exemption is that, –

(a) such foreign company does not own or operate any of the physical infrastructure or any resources of the specified data centre; and
(b) all sales by such foreign company, where made to users located in India are made through a reseller entity being an Indian company;

Q.4 What conditions are applicable to data centre?

Ans: The data centre for the purposes of proposed provision shall be 'specified data centre' which is set up under an approved scheme and is notified in this behalf by the Central Government in the Ministry of Electronics and Information Technology and is owned and operated by an Indian company

Q.5 What do we mean by "data centre services"?

Ans: "data centre services" shall mean services provided by a data centre through the use of physical infrastructure including land, buildings, mechanical electrical power equipment's, cooling system, security and information technology infrastructure including servers, computers, storage systems, operating systems, security solutions, network and associated software platforms, networking and other equipment, human resource in India.

Q.6 What are the provisions if services are provided by the data centre to a related party service provider?

Ans: An international transaction of provision of data centre services between the eligible assessee and its associated enterprise is proposed to be included in the safe harbour regime with a margin of 15%.

Q.7 What would be the chargeability in case the cloud service provider is also an Indian resident?

Ans: In case the cloud service provider is an Indian resident, then the exemption provision will not be applicable to the said Indian resident as the provisions provides exemptions to only notified foreign company.

Q.8 What would be the chargeability of such foreign company in case of sale in India is made through the reseller entity?

Ans: The one of the conditions for availing exemption is that the notified foreign company shall make sales to users in India through reseller entity. Therefore, if such condition is complied with there shall be no chargeability on such income of the said foreign company.

Q.9 For what period is the exemption available under the proposed amendment?

Ans: The exemption is available for a period upto 31st March, 2047.

XXVIII. Exemption: Non-resident on income arising on account of provision of Capital Equipment to a manufacturer located in a Custom Bonded Area [Schedule IV* of the Income-tax Act, 2025*].

Q.1 Who is eligible for exemption under the proposed provision?

Ans: A foreign company, who is providing capital goods, equipment or tooling to the contract manufacturer for use in manufacturing is eligible for exemption under the proposed amendment.

Q.2 What income is proposed to be exempted under the proposed provision?

Ans: Any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India is eligible for exemption under the proposed amendment.

Q.3 Who would be the 'contract manufacturer' under the proposed provision?

Ans: The contract manufacturer would be a company resident in India, who produces electronic goods on behalf of the foreign company for a consideration and is located in a custom bonded area (warehouse referred to in section 65 of the Customs Act, 1962).

Q.4 What is the intent of bringing the proposed provision?

Ans. The provision aims to promote electronic manufacturing in India by an Indian company who is manufacturing goods as a Contract manufacturer of the foreign company. This shall save the said Indian company from heavy capital investment in the Capital equipment thus bringing down overall cost of production.

Q.5 For what period is the proposed amendment applicable?

Ans: The proposed amendment is applicable for the tax years upto the tax year 2030-31.

***XXIX. Exemption: Non-residents for rendering services under a notified Scheme in India. [Schedule IV* of the Income-tax Act, 2025]**

Q.1 What are the existing provisions relating to residency of a person in India?

Ans: Section 6 of the Income-tax Act, 2025 determines residential status of a person in India during a tax year. The said section inter alia provides that an individual shall be resident in India in a tax year, if he is in India for a total period of 182 days or more in that tax year or is in India cumulatively for 60 days or more in that tax year and has been in India cumulatively for 365 days or more in the four years preceding such tax year with certain exceptions.

Q.2 What are the existing provisions relating to taxation of a non-resident?

Ans: Section 5 of the Income-tax Act, 2025 inter alia specifies the scope of total income. As per section 5, the total income of a non-resident includes only those incomes which are derived from any sources in India. i.e. it is received or deemed to be received in India or accrues or arises or deemed to accrue or arise in India during the such tax year.

Q.3 Is there any relaxation in the case of non-resident under the Income-tax Act, 2025 or under the Double taxation avoidance agreement in respect of residency criteria?

Ans: In the case of a non-resident from any country with which India has DTAA, taxing right is with the country of residence, if the stay in India is less than 6 months. With certain countries like USA, UK and Australia this threshold has been increased to 2 years, as per existing DTAAs this threshold of stay in India is available to 2 years.

Q.4 What is proposed in the proposed new provision?

Ans. An exemption is proposed to 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 under a notified scheme in India. As per the proposed amendment, the exemption to such person shall be on any income which accrues or arises outside India, and is not deemed to accrue or arise in India, and shall be available for five consecutive tax years commencing from the first tax year during which he visits India for the purposes of rendering services under the notified scheme.

Q.5 What are the conditions for availing such exemption?

Ans: The exemption is available, if such person renders any service in India in connection with any Scheme as may be notified by the Central Government and fulfils such other conditions as may be prescribed.

Q.6 What is the rationale behind proposed provision?

Ans: Many non-resident experts visit India for rendering specialised services in various domain areas. However, owing to provisions contained in section 6 of the Income-tax Act, 2025 read with section 5 of the Income-tax Act, 2025 and by the virtue of their physical presence in India beyond threshold period, their global income becomes chargeable to tax in India. In order to encourage such individuals to provide specialized services in India the aforesaid amendment has been proposed

XXX. Exemption from MAT to non-residents availing presumptive taxation scheme

Q.1 What amendments are proposed regarding provisions of MAT for non-residents with presumptive taxation in the Finance Bill 2026?

Ans: It is proposed to add two more business that are under presumptive taxation to the exclusion from applicability of MAT provisions - **business of operation of cruise ships (subject to prescribed conditions) and the business of providing services or technology in India**, for the purposes of setting up an electronics manufacturing facility or in connection with manufacturing or producing electronic goods, article or thing in India to a resident company.

Q.2 As per the existing provisions, what are the business of non-residents that are eligible to be governed by presumptive taxation under section 61(2) of the Income-tax Act, 2025?

Ans: The following non-resident businesses are eligible to opt for presumptive taxation.

- Business of operation of ships (other than cruise ships),
- Business of operation of cruise ships (subject to prescribed conditions)
- Business of operation of aircraft.
- Business of civil construction or erection or testing or commissioning, of plant or machinery, in connection with a turnkey power project, approved by the Central Government.
- Business of providing services or facilities (including supply of plant and machinery on hire) for prospecting, extraction or production of mineral oils.
- Business of providing services or technology in India, for the purposes of setting up an electronics manufacturing facility or in connection with manufacturing or producing electronic goods, article or thing in India to a resident company.

***XXXI. Expanding the list of minerals under Schedule XII* of the Income-tax Act, 2025 *which are eligible for deduction under section 51* of the Income-tax Act, 2025**

Q.1 Is there any special provision in the Income-tax Act, 2025 relating to deduction for expenditure on prospecting etc., for certain minerals?

Ans: Yes. Section 51 of the Income-tax Act, 2025 provides for deductibility of expenses incurred in any operations relating to prospecting for, or extraction or production of, the mineral or group of associated minerals mentioned in Schedule XII of the Income-tax Act, 2025 or on the development of a mine or other natural deposit of any such mineral or group of associated minerals.

Q.2 What are the changes proposed in Schedule XII of the Income-tax Act, 2025?

Ans: In order to incentivise the prospecting for, or extraction or production of, the critical minerals, the list of minerals in Part A of Schedule XII of the Income-tax Act, 2025 has been expanded to include certain critical minerals, so that they also become eligible for special deduction under section 51 of the Income-tax Act, 2025.

Q.3 What will be the impact of such change?

Ans: It will incentivise the prospecting and other associated activities in relation to critical minerals.

The person engaged in such business will be allowed to claim expenses incurred at any time during the year of commercial production and any one or more of the four years preceding that year as deduction. The deduction is amortised over a period of ten subsequent years.

Q.4 From when the said change in Schedule XII of the Income-tax Act, 2025 be made effective?

Ans: The said amendment shall be made effective from 1st April, 2026 and will apply for tax year 2026-27 and subsequent years.

XXXII. Rationalisation of Tax Rate and Extension of Deduction for IFSC and OBUs (Section 147 and 218 of the Income-tax Act, 2025)

Q.1 What is the current tax benefit available to units in IFSC and OBUs?

Ans: Under section 147 of the Income-tax Act, 2025 there is 100% deduction on certain incomes of units of IFSC and OBUs. This deduction is available for 10 consecutive years out of 15 years for IFSC units and 10 consecutive years for OBUs.

Q.2 What is the new time limit for this deduction?

Ans: Now under section 147 of the Income-tax Act, 2025 the 100% deduction for the units of IFSC will be given for 20 consecutive years out of 25 years for IFSC units and 20 consecutive years for OBUs, the 25/20 years being counted from the year of registration in IFSC in respect of the units or OBUs respectively.

Q.3 What happens after the time limit for deduction expires?

Ans: The business income of these units in IFSC will be taxed at a rate of 15% after the time period for deduction expires.

Q.4 Which income is allowed for deduction?

Ans: The income which is to be allowed for deduction shall be the income from—

(*a*) an Offshore Banking Unit located in a Special Economic Zone; or

(*b*) the business activities referred to in section 6(*1*) of the Banking Regulation Act, 1949, with undertakings in a Special Economic Zone or entities that develop, develop and operate, or develop, operate and maintain Special Economic Zone; or

(*c*) the approved business activities of any Unit of an International Financial Services Centre set up in a Special Economic Zone; or

(*d*) transfer of an asset being, an aircraft or a ship, leased by a unit referred to in clause (*c*) if such unit commenced its business operations by 31st March, 2030.

Q.5 What is the rate of taxation for these units when they cannot avail deduction?

Ans: The business income of these units shall be taxed at the rate of 15% once the period of availing deduction expires.

XXXIII. IFSC: Relaxation from applicability of deemed dividend for treasury centres in IFSC. [Section 2(40)* of the Income-tax Act, 2025*].

Q.1 What was the current provisions relating to deemed dividend contained in section 2(40)(v) of the Income-tax Act, 2025 relating to IFSC?

Ans. The existing provisions provided that the following shall not be treated as deemed dividend:

Any advance or loan between two group entities, where,—

- one of the group entities is 'Finance Company' or 'Finance Unit' located in IFSC and
- the 'parent or principal entity' of such group is listed on stock exchange in a country or territory outside India (other than the country or territory outside India as specified by the Board in this behalf).

Q.2 What are the changes in the amended provisions?

Ans: As per the amended provisions, the following shall not be treated as deemed dividend, where–

(i) Any advance or loan is between two group entities, and the 'parent or principal entity' of such group is listed on stock exchange in a country or territory outside India (as specified by the Central Government in this behalf);

(ii) The transaction of loan or advance is between one of the group entities which is 'Finance Company' or 'Finance Unit' located in IFSC and the other entity which is either the parent or principal entity of the group (as above) or other group entity;

(iii) The parent or principal entity of the group or other group entity shall have to be situated in the country or territory outside India specified by the Central Government.

Q.3 What was the rationale behind proposing amendment in existing provision?

Ans: The existing provision does not take into account the location of other group entity, with which an entity located in IFSC may have transaction in the nature of loan and advance. This may have lead to misuse of the existing provision. Therefore, an amendment has been proposed in the said provision.

RATIONALISATION OF CORPORATE TAX REGIME

XXXIV. Reforms in MAT (Section 206* of the Income-tax Act, 2025*)

Q.1 What is Minimum Alternate tax (MAT) as per the present provisions and when is it levied?

Ans: Minimum alternate tax is an alternate tax computation levied only on companies. This is a tax calculated at the rate of 15% of book profit. This is chargeable only when the Minimum alternate tax is more than the tax on income as per the normal provisions of the Income-tax Act, 2025.

Q.2 What is the benefit to the taxpayer when MAT is more than tax on income as per the normal provisions?

Ans: The tax paid under MAT to the extent it is more than tax as per normal provisions is allowed as credit in subsequent years where it can be set off when the tax under normal provisions is more than MAT.

Q.3 How many years can the credit under MAT be carried forward to?

Ans: The credit under MAT can be accumulated and carried forward up to the fifteenth tax year immediately succeeding the year in which such tax credit first becomes allowable

Q.4 Is MAT applicable to companies in the new tax regime?

Ans: No, MAT is not applicable to companies in the new tax regime.

Q.5 What is the proposed amendment to MAT provisions in Finance Bill, 2026.

Ans: It is proposed to –

- **i)** Reduce the rate of MAT from 15% to 14% for companies who are in the old regime.
- **ii)** However, MAT tax will be final tax and no new credit in respect of the tax paid @14% will be allowed from 01.04.2026.
- **iii)** Further, the set off of credit of MAT will be allowed only to domestic companies who move to New tax regime from tax year 2026-27.
- **iv)** The credit will be to the extent of one-fourth of the total tax liability for that year.
- **v)** The credit of MAT accumulated upto 31/3/2026 shall be allowable upto fifteenth year from the year when the corresponding credit was first created.
- **vi)** The credit of MAT shall be allowable to those entities who are presently in old regime and shift from old to new regime for tax year 2026-27 or subsequent tax year(s).
- **vii)** Foreign companies will continue to be allowed utilisation of MAT credit.

Q.6 How much of MAT credit is proposed to be set off by a domestic company in a year?

Ans: In the new tax regime, a domestic company can set off MAT credit up to 25% of the total tax liability for that year. For example, if the tax liability is ₹100, then the MAT credit set-off for that year cannot exceed ₹25, if there is MAT credit available of at least ₹25.

Q.7 If a company is in the old regime, how do the proposed change in MAT provisions affect it?

Ans: As MAT becomes a final tax, no MAT credit will be generated for any year going forward. Thus, the rate of MAT has been reduced to 14% on book profits to account for the fact that subsequent credit of tax and its utilisation, is not available in respect of such payment.

Q.8 Can a domestic company in the old regime set off the accumulated MAT credit?

Ans: No, the MAT credit that is already available to a domestic company cannot be set off in the old regime. This may be utilised only after moving to the new tax regime (subject to the 25% cap) from tax year 2026-27 and onwards.

Q.9 What is the impact of the proposed MAT provisions on foreign companies?

Ans: As MAT becomes a final tax for foreign companies, no new MAT credit will be allowed from henceforth. Therefore, the rate of MAT has been reduced to 14% on book profits.

Q.10 Can the foreign companies set off any MAT credit that is carried forward till date?

Ans: Yes. in the case of foreign companies, the set off of brought forward MAT credit will be permitted to the extent of the difference between the regular tax liability and MAT liability, provided that the regular tax in the relevant tax year exceeds MAT.

Q.11 Will new MAT credit be generated for foreign or domestic companies under the amended provisions?

Ans: No. MAT is now a final tax under the old regime and MAT provisions are not applicable in the new concessional regime. Thus, no new MAT credit will be generated for any company.

Q.12 Which domestic companies can use the MAT credit accumulated from earlier years?

Ans: Only domestic companies moving to the New Tax regime for the tax year 2026-27 and onwards will be allowed to use the existing MAT credit.

Q.13 Will the 25% cap on MAT credit set-off apply annually or cumulatively?

Ans: The 25% restriction applies **per tax year**. A company can set off MAT credit up to 25% of its tax liability for each year under the new regime, until its credit balance is fully exhausted or 15 year period from the time credit was first allowed expires.

Q.14 Why is provision of set-off of MAT credit not available to companies who have previously opted for new tax regime?

Ans: A company's shift to the New Tax Regime prior to this amendment was a business decision that was made on basis of the financials, status and analysis of the impact of deductions/exemptions in respective years and the tax liability upon these companies in the old as compared to the new tax regime. They have been benefitted as they had paid tax at rates applicable to new regime which were less than the old regime.

Q.15 Which foreign companies are exempt from paying MAT?

Ans: Any foreign company—

- which is a resident of a country with which India has a tax treaty (DTAA) and the company does not have a permanent office or base (PE) in India.
- which is a resident of a country with which India does *not* have a tax treaty, and the company is not required to register under Indian company laws.
- whose total income comes entirely from specific businesses governed by presumptive taxation under Section 61(2) of the Income-tax Act, 2025 , and it has paid tax at the specific rates applicable to those businesses.

Q.16 When is this amendment applicable from?

Ans: The amendment shall take effect from the 1st day of April, 2026 and shall apply in relation to the tax year 2025-26 and subsequent tax years.

RATIONALISATION OF OTHER DIRECT TAX PROVISIONS

***XXXV. Buyback of Shares (Section 2(40)(f) and 69* of the Income-tax Act, 2025*)**

Q.1 How is consideration received on buy-back of shares currently taxed?

Ans: Under the existing provisions, consideration received by a shareholder on buy-back of shares is treated as dividend under section 2(40)(f) of the Income-tax Act, 2025. This is taxed on the applicable rate, i.e. each taxpayer will pay tax on the tax rate that is applicable to him. For eg: a company in new regime will pay tax at 22% while a firm or LLP will pay at 30% (apart from cess and surcharge).

Q.2. Under the present provisions, is there any deduction allowed for the buyback of shares?

Ans: Under the present provisions, buyback is treated as dividend income and no deduction is allowed as per the provisions of section 93(2)(a) of the Income-tax Act, 2025. However, the cost of acquisition of the shares extinguished on buy-back is allowed as a Capital Loss under section 69 of the Income-tax Act, 2025.

Q.3 What change has been made to the tax treatment of consideration received on buy-back of shares by the Finance Bill, 2026?

Ans: It is proposed that the consideration received by a shareholder on buy-back of shares by a company shall be chargeable to tax under the head "Capital gains".

Q.4 Is there a uniform tax treatment for all taxpayers in respect of buy-back transactions?

Ans: The income from buy-back is treated as capital gains for all taxpayers. Therefore, the cost of acquisition shall be deducted from the buy-back consideration. However, an **additional tax is proposed to be collected from taxpayers who are promoters**. Within the promoter category, a distinction has been made between promoters that are domestic companies and promoters which are other than domestic companies.

Q.5 What is the tax treatment in the case of promoters which are domestic companies?

Ans: In the case of promoters which are domestic companies, the aggregate tax liability on capital gains arising from buy-back of shares, shall comprise of

i) Tax payable under the capital gains provisions; and

ii) An additional tax.

In a manner that the total tax on buy-back of shares (i.e. aggregate of (i) and (ii)) shall be at the rate of 22 per cent, which is same as the tax rate for domestic companies in the new regime.

Q.6 What is the tax treatment in the case of promoters other than domestic companies?

Ans: In the case of promoters other than domestic companies, the aggregate tax liability on gains arising from buy-back of shares, shall comprise of

i) Tax payable under the capital gains provisions; and

ii) An additional tax.

The additional tax shall be computed in a manner that the total tax on buy-back of shares (i.e. aggregate of (i) and (ii)) shall be at the rate of 30 per cent which is same as the tax rate for firms and LLPs and the highest slab rate for individuals.

Q.7 From which date shall the amended provisions apply?

Ans: These amendments shall take effect from the 1st day of April, 2026 and shall apply in relation to the tax year 2026-27 and subsequent tax years.

***XXXVI. Rationalisation of Tax Collection at Source rates under section 394(1)* of the Income-tax Act, 2025**

Q.1 Are the any changes proposed with regard to rates of TCS in Finance Bill, 2026?

Ans. Yes, changes are proposed in various TCS rates. Following are the proposed changes:

Sl. 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%

Q.2 Why TCS rates are being rationalized?

Ans: The TCS rates are rationalized with a view to provide uniform rate of TCS to the extent possible.

Q.3 Elaborate the changes made in Finance Bill, 2026 with respect to rate of TCS on remittances?

Ans. At present, TCS at 5% is collected if remittance is for the purposes of education or medical treatment and TCS at the rate of 20% is collected for purposes other than education or medical treatment.

It is proposed to reduce the rate of TCS to 2% for purposes of education and medical treatment. However, there is no change in TCS rate for purposes other than education or medical treatment.

Q.4 What is purpose of reducing TCS rates for remittance for purposes of education or medical treatment

The rationalization of rates has been done to provide more liquidity to the remitter and minimize locking of funds. In such case the rate has been rationalized only keep track of the transaction

Q.5 Whether any change is proposed in the threshold limit for TCS on remittances?

Ans. No. The threshold limit for applicability of TCS on remittances under the Liberalised Remittance Scheme remains same i.e. Rs. 10 lakhs.

Q.6 Explain the changes in rate of TCS on sale of overseas tour programme packages.

Ans. There are two changes being made ie. (i) Change in rate of TCS; & (ii) removal of threshold. Accordingly –

- **i)** TCS @5% of aggregate amount up to ten lakh rupees and @20% of aggregate amount ten lakh rupees is presently applicable on sale of overseas tour program package. **It is proposed to reduce the rate of TCS to 2%.**
- **ii)** The threshold limit for TCS on overseas tour programme packages has been removed. TCS @2% will be collected irrespective of the amount paid for overseas tour programme package.

Q.7 From when will these changes be made effective?

Ans. These changes will be effective from 1st April, 2026.

XXXVII. Rates of STT (Finance Act (No.2), 2004)

Q.1 What is the current provision for Securities Transaction Tax (STT) on options in securities?

Ans: Under the existing provisions of the Income-tax Act, 2025 and the STT framework introduced by the Finance (No. 2) Act, 2004, STT is levied on transactions in specified securities carried out through recognised stock exchanges. The current rates applicable to options in securities are 0.1 per cent of the option premium on sale of an option and 0.125 per cent of the intrinsic price on sale of an option when exercised.

Q.2 What is the current provision for Securities Transaction Tax (STT) on futures in securities?

Ans: Under the existing provisions and the STT framework introduced by the Finance (No. 2) Act, 2004, the current rate applicable to futures in securities is 0.02 per cent of the traded price on sale of a future

Q.3 What changes have been made by the Finance Act to the rates of Securities Transaction Tax on derivatives transactions?

Ans: The Finance Act provides for a revision in the rates of Securities Transaction Tax applicable to specified derivatives transactions carried out on recognised stock exchanges. The revised rates apply to the sale of options in securities, sale of options in securities where the option is exercised, and sale of futures in securities.

Q.4 What is the revised rate of Securities Transaction Tax on sale of an option in securities?

Ans: The rate of Securities Transaction Tax on the sale of an option in securities has been increased from 0.1 per cent to 0.15 per cent, and the tax shall be computed on the option premium.

Q.5 What is the revised rate of Securities Transaction Tax on sale of an option in securities where the option is exercised?

Ans: The rate of Securities Transaction Tax on the sale of an option in securities where the option is exercised has been increased from 0.125 per cent to 0.15 per cent, and the tax shall be computed on the intrinsic price of the option.

Q.6 What is the revised rate of Securities Transaction Tax on sale of a future in securities?

Ans: The rate of Securities Transaction Tax on the sale of a future in securities has been increased from 0.02 per cent to 0.05 per cent, and the tax shall be computed on the traded price of the future.

Q.7 From which date shall the revised rates of Securities Transaction Tax apply?

Ans: The revised rates shall take effect from the 1st day of April, 2026 and shall apply to derivatives transactions in securities entered into on or after that date

XXXVIII. Clarification regarding Sovereign Gold Bonds (Section 70(1)(x)* of the Income-tax Act, 2025*)

Q.1 What is the current provision for capital gains on Sovereign Gold Bonds?

Ans: The capital gains arising from redemption of Sovereign Gold Bonds issued by the Reserve Bank of India are exempt under the provisions of section 70(1)(x) of the Income-tax Act, 2025.

Q.2 What amendment is proposed regarding the exemption for capital gains arising from redemption of Sovereign Gold Bonds?

Ans: Section 70(1)(x) of the Income-tax Act, 2025 has been amended to clarify that the exemption from capital gains tax shall be available only where the Sovereign Gold Bond is subscribed to by an individual at the time of original issue and is held continuously until redemption on maturity.

Q.3 Does the exemption apply uniformly to all series of Sovereign Gold Bonds issued by the Reserve Bank of India?

Ans: Yes. The amended provision applies uniformly to all Sovereign Gold Bonds issued by the Reserve Bank of India from time to time, irrespective of the series in which the bonds were issued, subject to fulfilment of the specified conditions.

Q.4 Will the exemption under section 70(1)(x) of the Income-tax Act, 2025 apply to Sovereign Gold Bonds acquired through secondary market transactions?

Ans: No, the exemption shall not apply to Sovereign Gold Bonds acquired through transfer or purchase in the secondary market. The exemption is restricted to bonds subscribed to by an individual at the time of original issue. This was also clarified by the Department of Economic Affairs in its OM dated 06.12.2022.

Q.5 Will this exemption be available in cases of premature redemption of Sovereign Gold Bonds?

Ans: No, the exemption shall apply only where the Sovereign Gold Bond is held continuously until redemption on maturity. Premature redemption, even after completion of the prescribed lock-in period, shall not be eligible for exemption.

Q.6 From which date shall the amended provisions apply?

Ans: The amendment shall take effect from the 1st day of April, 2026 and shall apply in relation to the tax year 2026-27 and subsequent tax years.

Q.7 As a result of this amendment what will be the taxability in respect of redemption of Sovereign Gold Bonds?

Ans: Taxability is as under:

Sl.no.	**Conditions**	**Taxability**
a)	If purchased at the time of issue and held till maturity:	Exempt

b)	If not purchased at the time of issue and held till maturity:	Taxable
c)	If purchased at the time of issue and but not held till maturity:	Taxable
d)	If neither purchased at the time of issue and nor held till maturity:	Taxable

XXXIX. Rationalisation of Regime for Provident Funds (Schedule XI* of the Income-tax Act, 2025*)

Q.1 What is the current regime governing Provident Funds under the Income-tax Act?

Ans: Currently, provident funds are governed by Schedule XI of the Income-tax Act, 2025 under which they are recognized and are subject to certain restrictions, including parity-based limits on employer contributions, percentage caps on excess contributions, differentiated limits for employee-shareholders, and investment limits in Government securities, among others. The other sections of the Income-tax Act, 2025 that are applicable to such provident funds include definition of recognized provident fund under section 2(91) of the Income-tax Act, 2025, deduction under section 123 of the Income-tax Act, 2025 and schedule XV of the Income-tax Act, 2025 and exemption under Schedule VII (Table. Sl.No 22) of the Income-tax Act, 2025.

Q.2 What changes are proposed to Schedule XI relating to recognized provident funds under the Income-tax Act, 2025?

Ans: It is proposed to rationalize Schedule XI of the Income-tax Act, 2025 by deleting or amending certain provisions in Parts A and C to align the income-tax framework governing recognized provident funds with the statutory and administrative provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 and the Employees' Provident Fund Scheme, 1952 and other provisions in the Income-tax Act, 2025.

Q.3 How will employer contributions to recognized provident funds be governed after the proposed amendment?

Ans: The provisions in Schedule XI of the Income-tax Act, 2025 that restrict employer contributions by reference to parity with employee contributions, annual crediting requirements or percentage-of-salary limits are proposed to be removed. Employer contributions shall be governed by the aggregate monetary ceiling of Rs 7.5 Lakhs prescribed under section 17(1)(h) of the Income-tax Act, 2025.

Q.4 What change is proposed regarding recognition of provident funds under the Income-tax Act?

Ans: Recognition under the of the Income-tax Act, 2025 shall be available only to provident funds which have obtained exemption under section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. Schedule XI of the Income-tax Act, 2025 is proposed to be amended to reflect this requirement explicitly.

Q.5 How will the tax treatment of employer contributions in excess of specified limits be determined?

Ans: Employer contributions shall be subject the monetary ceiling prescribed under section 17(1)(h) of the Income-tax Act, 2025. Once this monetary ceiling is crossed, the contributions will be taxed as perquisites. The existing provisions in Schedule XI of the Income-tax Act, 2025 deeming employer contributions as income is proposed to be omitted.

Q.6 Will the distinction for employees who are also shareholders of the employer company continue to apply?

Ans: No separate limits or conditions shall apply to employees who are also shareholders of the employer company. The differentiated limits presently provided in Schedule XI are proposed to be removed, and such employees shall be governed by the same contribution framework as other employees, i.e the limit prescribed in section 17(1)(h) of the Income-tax Act, 2025 and the framework set in place by the EPFO.

Q.7 What change is proposed in relation to investment of provident fund monies in Government securities?

Ans: The rigid statutory ceiling restricting investment in Government securities to fifty per cent is proposed to be removed. Investment norms shall continue to be regulated under the applicable EPF framework and subordinate legislation.

Q.8 From which date shall the amended provisions apply?

Ans: These amendments shall take effect from the 1st day of April, 2026 and shall apply in relation to the tax year 2026-27 and subsequent tax years.

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

Q.1 What expenditure is allowed as a deduction against dividend or income from units of Mutual Funds?

Ans: Presently, if any interest expenditure is incurred for earning income from dividends, the expenditure is allowed subject to a certain threshold.

Q.2 What is the threshold for deduction of interest expenditure against dividend or income from units of Mutual Funds?

Ans: Under section 93 of the Income-tax Act, 2025, the interest expenditure is allowed to the extent of twenty per cent of the gross dividend or mutual fund income. For example: If the total income on account of dividend is Rs 1,00,000/- and the interest expense is Rs 25,000/-, the deduction will be allowed to the extent of Rs 20,000/-.

Q.3 What changes are proposed to this provision of deduction of interest expenditure by the Finance Bill 2026?

Ans: It is proposed to amend section 93 of the Income-tax Act, 2025 to provide that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds taxable under the head "Income from other sources".

Q.4 Can an assessee claim any expenditure apart from interest expenditure against dividend income and income from units of mutual funds?

Ans: No expenditure can be claimed as a deduction against dividend income and income from units of mutual funds.

Q.5 How will dividend income and income from units of mutual funds be computed after the amendment?

Ans: Dividend income and income from units of mutual funds shall be computed without allowing any deduction for interest expenditure, irrespective of any borrowing whether or not claimed to be attributable to such income.

Q.6 Is this deduction available to individuals, after the proposed amendment?

Ans: No, after the proposed amendment, no deduction will be allowed to any assessee, including individuals in respect of such income.

Q.7 From which date shall the amended provisions of section 93 of the Income-tax Act, 2025 apply?

Ans: The amendment shall take effect from the 1st day of April, 2026 and shall apply in relation to the tax year 2026-27 and subsequent tax years.

Q.8 What will be the situation if shares are kept as stock in trade?

Ans: In such a case, the interest expense may have been claimed as deduction in the P&L account. Thus, no additional deduction on this account under section 93 of the Income-tax Act, 2025 can be allowed.

***XLI. Amendment in Repeal and Saving clause under section 536(2)(h)* of the Income-tax Act, 2025**

Q.1 What is the provision of section 536(2)(h) of the Income-tax Act, 2025?

Ans: Section 536(2)(h) of the Income-tax Act, 2025 provides that where deduction has been allowed or any income has not been included in the total income under the repealed Income-tax Act, 1961, on violations of the conditions mentioned in the respective sections of the repealed Act, it will become deemed income under the Income-tax Act, 2025 in the year in which violation takes place.

Q.2 What changes are proposed in section 536(2)(h) of the Income-tax Act, 2025?

Ans: It is proposed that any amount that has been allowed as deduction or which has not been included in the total income under the repealed Income-tax Act, 1961 for any other reason, shall be deemed income of the person, if such amount was to be included in the total income under the repealed Income-tax Act, 1961 for any other reason.

Q.3 Why the aforesaid change is proposed?

Ans: The present provision only covers situations where on violation of conditions mentioned in the respective sections of the repealed Act, the amount will be deemed to be income of the person.

However, it does not cover situations, where as per the provisions of the repealed Act, the amount is required to be added in the total income, even when no conditions are violated.

To ensure that such amounts are deemed to be income of the person under the Income-tax Act, 2025, the aforesaid change is proposed.

Q.4 What is the impact of this amendment?

Ans: This amendment will provide clarity that any amount which had been allowed as deduction or which was included in the total income under the provision of Income-tax Act, 1961, shall be deemed to be the income, if it was required to be added in the total income under the said act, irrespective of violations of conditions or for any other reason.

Q.5 From when the said change be made effective?

Ans: The said change shall be made effective from 1.4.2026.

XLII. Extension of Tonnage Tax Scheme to Inland vessels (Chapter XIII-G of the Income-tax Act, 2025)

Q.1 What is Tonnage Tax Scheme?

Ans: Tonnage Tax Scheme, as provided in the Chapter XIII-G of the Income-tax Act, 2025, is a presumptive tax scheme for shipping companies which allows them to compute their profits on presumptive basis.

Q.2 Who is eligible to avail tonnage tax scheme as per existing provisions of the Income-tax Act, 2025?

Ans: Shipping companies which operate 'qualifying sea going ships' registered under the Merchant Shipping Act, 1958, are eligible to avail tonnage tax scheme. Vide Finance Act, 2025, the provisions of this Chapter were extended to inland vessels registered under the Inland Vessels Act, 2021 as well to encourage the inland water transportation in the country.

Q.3 What are the changes proposed vide Finance Bill, 2026 in Chapter XIII-G of the Income-tax Act, 2025?

Ans: Certain amendments are proposed to be made in the Chapter by providing relevant references as per the Inland Vessels Act, 2021 and rules made thereunder.

Q.4 What is the impact of this amendment?

Ans: The amendment will bring the references in the Chapter in line with the provisions of Inland Vessels Act, 2021 and rules made thereunder.

Q.5 From which date will the above amendment be effective?

Ans: The amendments are proposed to be made effective from 1st April, 2026.

***XLIII. Disability pension (Schedule III* of the Income-tax Act, 2025)**

Q.1 What is the taxability of disability pension for Armed Forces personnel?

Ans: The disability pension received by Armed Forces personnel when invalided out of service due to injury on account of disability attributable/aggravated by service in the armed forces is exempt.

Q.2 What are the provisions under the Income-tax Act, 1961 providing exemption of disability pension for Armed Forces personnel?

Ans: The exemption was first provided under the Income-tax Act, 1922 and has continued through the repeal and saving clause of the Income-tax Act, 1961. Exemption has been administered through notifications, administrative instructions, and clarificatory circulars.

Q.3 What provision has been proposed by the Finance Bill, 2026 in respect of disability pension of Armed Forces personnel?

Ans: It is proposed to amend the Income-tax Act, 2025 to provide an exemption for disability pension received by members of the Armed Forces who have been invalided out of service on account of a bodily disability attributable to, or aggravated by, military, naval or air force service.

Q.4 What components of disability pension are covered under the exemption?

Ans: The exemption applies to both components of disability pension, namely the service element and the disability element, subject to fulfilment of the specified conditions.

Q.5 In which cases shall the exemption for disability pension not be available?

Ans: The exemption shall not be available where the individual has retired on superannuation or otherwise.

Q.6 Does this exemption available for paramilitary forces?

Ans: Yes, this proposed amendment provides for exemption to the paramilitary forces as well.

Q.7 From which date shall the amended provisions apply?

Ans: The exemption shall take effect from the 1st day of April, 2026 and shall apply in relation to the tax year 2026-27 and subsequent tax years.

Q.8 If the exemption is available to the personnel in the Income tax Act, 1961, what is the need to bring such amendment?

Ans: The exemption under the Income-tax Act, 1961 was provided through repeal and savings clause therein, whereby the exemption provided under the Indian Income tax Act, 1922 and relevant circulars continued to apply. With the imminent repeal of the Income-tax Act, 1961 the provisions therein relevant to disability pension will not apply anymore. Therefore, it is proposed to explicitly provide for exemption for disability pension in the Income-tax Act, 2025. Moreover, the scope for exemption has been increased to include para-military forces as well.

XLIV. Exemption: Income in respect of award/agreement made for compulsory acquisition of land under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act). [Schedule III* of the Income-tax Act, 2025*].

Q.1 What are the provisions relating to exemption from income-tax under the provisions of the RFCTLARR Act, 2013?

Ans: Section 96 of the RFCTLARR Act inter alia provides that income-tax shall not levied on any award or agreement made (except those made under section 46) under the said Act.

Q.2 Why is there a requirement to bring such provisions of exemption under the Income-tax Act, 2025 and the RFCTLARR Act, 2013?

Ans: The current provisions of the Income-tax Act, 2025 exempt the capital gains arising to an individual or a Hindu undivided family from transfer of agricultural land by way of compulsory acquisition. However, the RFCTLARR Act does not make any distinction between compensation received for compulsory acquisition of agricultural land and non-agricultural land in the matter of providing exemption from income-tax.

Accordingly, to bring clarity and align the provisions of the two Acts the amendment has been proposed.

Q.3 What amendment has been proposed in the Income-tax Act, 2025 in respect of aforementioned exemption under the RFCTLARR Act, 2013?

Ans: In the proposed amendment, any income of an individual or Hindu undivided family in respect of any award or agreement made on account of compulsory acquisition of any land under the RFCTLARR Act (other than award and agreement made under section 46) is proposed to be exempted irrespective of whether such compulsory acquisition under the said Act is of agricultural or non-agricultural land.

Q.4 The proposed amendment has been made effective from 1.4.2026 (i.e., tax year 2026-27). How would the earlier transaction be dealt with?

Ans: The acquisition of land before 1st April, 2026 (upto financial year 2025-26) shall continue to be exempted as per the clarification given vide CBDT Circular No.36/2016 dated 25 October, 2016.

XLV. Advance Pricing Agreements: Section 169 of the Income-tax Act, 2025

Q.1 What is an advance pricing agreement?

Ans: An advance pricing agreement (APA) is a mechanism to provide tax certainty to the taxpayers by determining inter alia the arm's length price or specifying the manner in which such price is to be determined, in relation to an international transaction to be entered into by that person.

Q.2 What are the provisions of section 169 of the Income-tax Act, 2025 relating to 'Effect to advance pricing agreement'?

Ans: The provisions of section 169 of the Income-tax Act, 2025 provide inter alia for modification of the return by the person who has entered into APA and taking such return into consideration if any assessment or reassessment proceedings in respect of such tax year in pending.

Q.3 What amendment has been made in the provisions of section 169 of the Income-tax Act, 2025?

Ans: The proposed amendment has enabled furnishing of modified return by the associated enterprise of the person who has entered into APA for the tax years covered by such agreement.

Q.4 What is the rationale for making such amendment?

Ans: APA not only may modify the income of person who has entered into the agreement but also the income of his associated enterprise for the tax years covered under such agreement. This may lead to double taxation of income that is the subject matter of APA in the hands of the associated enterprise. Therefore, to rationalise the existing provision said amendment has been proposed.

RATE OF INCOME TAX

XLVI. Rates of Income-tax

Q.1 What is 'New Regime'? [Section 115BAC(1A) of the Income-tax Act, 1961 and 202 of the Income-tax Act, 2025]

Ans: New regime provides for concessional tax rates and liberal slabs. However, no deductions are allowed in the new regime (other than those specified in section 115BAC(1A) of the Income-tax Act, 1961 or section 202 of the Income-tax Act, 2025).

Q.2 What are the tax rates in the new tax regime under the current provisions?

Ans: The tax rates in the new tax regime, for assessment year (AY 2026-27), provided under section 115BAC(1A) of the Income-tax Act, 1961, are as under: -

Sl. No.	**Total income**	**Rate of tax u/s 115BAC(1A) for AY 2026-27 (%)**
(1)	(2)	(3)
1	Up to ₹ 4,00,000	Nil
2	From ₹ 4,00,001 to ₹ 8,00,000	5
3	From ₹ 8,00,001 to Rs.12,00,000	10
4	From ₹ 12,00,001 to ₹ 16,00,000	15
5	From ₹ 16,00,001 to ₹ 20,00,000	20
6	From ₹ 20,00,001 to ₹ 24,00,000	25
7	Above ₹ 24,00,000	30

The tax rates in the new tax regime, for tax year (TY 2026-27) onwards, provided under section 202 of the Income-tax Act, 2025, are as under: -

Sl. No.	**Total income**	**Rate of tax u/s 202 with effect from TY 2026-27 (%)**
(1)	(2)	(3)
1	Up to ₹ 4,00,000	Nil
2	From ₹ 4,00,001 to ₹ 8,00,000	5
3	From ₹ 8,00,001 to Rs.12,00,000	10
4	From ₹ 12,00,001 to ₹ 16,00,000	15
5	From ₹ 16,00,001 to ₹ 20,00,000	20
6	From ₹ 20,00,001 to ₹ 24,00,000	25
7	Above ₹ 24,00,000	30

Q.3 To which persons new tax regime is applicable?

Ans: New tax regime under section 115BAC(1A) of the Income-tax Act, 1961 and section 202 of the Income-tax Act, 2025 is applicable to person, being an individual or Hindu undivided family or association of persons [other than a co-operative society], or body of individuals, whether incorporated or not, or an artificial juridical person referred to in section 2(31)(vii) of the Income-tax Act, 1961 or section 2(77)(g) of the Income-tax Act, 2025.

Q.4 What is the maximum total income for which tax liability for individual taxpayers is NIL?

Ans: In the new tax regime, the maximum total income for which tax liability for individual taxpayers is NIL is ₹ 12 lakhs on account of claim of rebate.

Q.5 To claim benefit of NIL tax liability mentioned above, what are the steps required to be taken?

Ans: The benefit of such Nil tax liability mentioned above is available only in the new tax regime. This New tax regime is the default regime. To avail the benefit of rebate allowable under proposed provisions of new tax regime, a return is required to be filed.

Q.6 Is the standard deduction on salary available in the new regime?

Ans: Yes, a standard deduction of ₹ 75,000 is available to a tax payer in the new regime. Therefore, a salaried tax payer will not be required to pay any tax where his income before standard deduction is less than or equal to ₹ 12,75,000.

Q.7 How is the marginal relief available to individuals?

Ans: In the new regime, marginal relief is available to only resident individuals who have income marginally above ₹ 12 lacs. For example, for a person having income of ₹ 12, 10,000/-, in the absence of marginal relief, the tax, works out to be ₹ 61,500/- (5% of ₹ 4 lacs + 10% of ₹ 4 lac + 15% of ₹ 10 thousand). However, due to marginal relief, the amount of tax to be actually paid is ₹ 10,000/-.

Q.8 How much tax will be paid by a tax payer having income of ₹ 12,10,000? What is marginal relief?

Ans: The tax liability on such tax payer by way of slabs only is ₹ 61,500. However a person having ₹ 12 lac income pays nil tax. By providing marginal relief it has been ensured that the tax payable by a person having income marginally above ₹ 12 lacs is required to pay only marginal amount of tax equal to the amount of income above ₹ 12 lacs so that his carry home is also ₹ 12 lacs. In this case he will be required to pay a tax of ₹ 10,000.

Income (in ₹)	Tax without Marginal relief (in ₹)	Tax actually payable with marginal relief (in ₹)
12,10,000	61,500	10,000
12,25,000	63,750	25,000
12,50,000	67,500	50,000
12,70,588	70,588	70,588 [No marginal relief]

Q.9 How the marginal relief is computed?

Ans: The marginal relief is computed in the following manner:-

(i) First the tax as per slab rate is computed on the total income.

For e.g. In the answer given to Q.7 above, tax on the total income of ₹ 12,10,000/- shall be computed in following steps:

Sl. No.	Amount to be charged (out of total income of ₹ 12, 10,000/-)	Tax Amount as per slab rates
1.	Initial amount of ₹ 4 lakhs	Nil (being basic exemption)
2.	Tax on subsequent amount of ₹ 4 lakhs (from ₹ 4 lakhs to ₹ 8 lakhs)	₹ 20,000 (being 5% of ₹ 4 lakhs)
3.	Tax on subsequent amount of ₹ 4 lakhs (from ₹ 8 lakhs to ₹ 12 lakhs)	₹ 40,000/- (being 10% of ₹ 4 lakhs)
4.	Tax on balance amount of ₹ 10,000/-	₹ 1500 (being 15% of ₹ 10,000)
	Aggregate tax liability	₹ 61, 500/-

(ii) Tax payable on total income of ₹ 12,00,000/- on which rebate is available is Nil.

(iii) Now the tax liability without marginal relief (in this case ₹ 61,500) shall be compared with amount exceeding total income upto which rebate is available [in this case ₹ 10,000, [i.e. ₹ 12,10,000 - ₹ 12,00,000]

(iv) The marginal relief shall be computed by deducting the income exceeding ₹ 12, 10,000 (i.e. ₹ 10,000) from total tax liability determined in this case (i.e. ₹ 61,500) as tabulated above.

(v) Therefore, in the above case marginal relief is ₹ 51,500 (61,500/- 10,000/-= 51,500/-) which is allowed.

(vi) Tax payable is therefore ₹ 10,000 [₹ 61,500 - ₹ 51,500]

Q.10 What is the maximum amount of rebate available to any tax payer?

Ans: The maximum rebate available is ₹ 60,000 which is there for a tax payer having income of ₹ 12 lacs on which tax is payable as per the new regime slabs.

Q.11 What is the total income till which marginal relief is admissible?

Ans: The total income till which marginal relief is available is ₹ 12,70,588/-.

Q.12 Whether special income having special rate such as capital gains, lottery etc. also be eligible for rebate?

Ans: Rebate is not available on income from capital gains or lotteries or any other income on which special rate has been provided in the Act. It is available only on the tax payable as per slabs under section 115BAC(1A) of the Income-tax Act, 1961 or section 202 of the Income-tax Act, 2025.

Q.13 What is the difference between rebate and marginal relief?

Ans: Rebate is the deduction from tax which is available to tax payers having income upto ₹ 12 Lakhs in the new regime. Marginal relief ensures that taxpayers having income marginally higher than ₹ 12 Lakhs do not pay tax more than the income in excess of ₹ 12 Lakhs.

Q.14 What are the tax rates for the individuals in the old tax regime?

Ans: The income-tax slabs in the old tax regime (i.e. whose income is not chargeable to tax under section 115BAC(1A) of the Income-tax Act, 1961 or section 202 of the Income-tax Act, 2025) has been tabulated below:-

<u>Old Tax Scheme</u>

Income-Slab (in ₹)	**Statutory Tax Rate**
	FY 2025-26 (AY 2026-27)
< = 2.5 lakhs	0 %
>2.5 lakhs -5 lakhs	5%
>5 lakhs -10 lakhs	20%
>10 lakhs	30%

Q.15 Whether standard deduction is available in old regime?

Ans: Standard deduction of ₹ 50,000 is available in old regime.

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