Tax Matters

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Key tax proposals of the Finance Bill, 2026

Budget 2026-27 presented by the Indian Finance Minister ('FM') on 1 February 2026 has arrived at a defining 'Goldilocks moment' in the Indian economic odyssey. During the current Financial Year ('FY'), aside from navigating the shifting tides of global uncertainty, the Indian economy was shaped by a weakening rupee, tepid foreign investor inflows, the introduction of Goods and Services Tax ('GST') 2.0 reforms, the introduction of the Labour Codes, along with Insurance and Pension Regulations reforms amongst others. Unveiled against this canvas, Budget 2026-27 aims to provide a strategic masterplan designed to elevate India and transform it from a developing mindset to a leading mindset, while ensuring the benefits of progress reach the last mile.

The Income-tax Act, 2025 had been notified on 22 August 2025 and is effective from FY 2026-27.The team at JMP Advisors is pleased to summarise below the significant tax proposals announced in Budget 2026-27. These proposals are subject to enactment of the Finance Bill, 2026 and are effective from FY 2026-27 unless otherwise stated.

I. DIRECT TAX

Rates of tax

- No amendments have been proposed in the rates of tax for any taxpayers.
- It is proposed to reduce the rate of Minimum Alternate Tax ('MAT') from 15% to 14% for companies continuing under the old tax regime. It will be considered as final tax.
- For domestic companies opting for the new tax regime effective from 1 April 2026, it is proposed that MAT credit accumulated upto 31 March 2026 shall be allowed to be set off to the extent of 25% of the tax liability.

Provisions relating to non-residents

- It is proposed to provide tax exemption to a foreign company on its income in India resulting from procuring data centre services from a specified data centre upto 31 March 2047, subject to conditions.
- It is proposed to exempt the income of a foreign company from providing capital goods, equipment or tooling to an Indian contract manufacturer for the use in electronics manufacturing in India upto 31 March 2031, subject to conditions.
- It is proposed to exempt the overseas income of a non-resident for five consecutive tax years where the non-resident visits India to render services in India as per a Scheme to be notified.
- It is proposed to extend the exclusion from MAT to foreign companies which have opted for taxation on a presumptive basis and engaged in the business of operation of cruise ships or business of providing services or technology for setting up an electronics manufacturing facility in India to a resident company.

International Financial Services Centre ('IFSC')

- It is proposed to extend the tax holiday period for IFSC units to 20 consecutive tax years out of the first 25 tax years and for Offshore Banking Units to 20 consecutive tax years. It is also proposed to provide that on completion of the tax holiday period, the business income of the above units would be subject to tax at 15%.

Transfer Pricing

- It is proposed in the FM's Budget speech to consolidate services relating to software development, IT enabled services, knowledge process outsourcing and contract R&D relating to software development with a common Safe Harbour margin of 15.5% and to enhance the threshold to avail Safe Harbour for these services from INR 3 billion (~USD 33 million) to INR 20 billion (~USD 220 million). The Safe Harbour once applied can be continued for a period of 5 consecutive years, at the option of the taxpayer. It is further proposed, in the FM's Budget speech, to expedite the process of Unilateral Advance Pricing Agreements ('APA') for IT services with an endeavour to conclude these within a period of 2 years.

- It is further proposed that when the income of a taxpayer is modified as a result of an APA, the Associated Enterprise ('AE') of such taxpayer can also file a tax return or modify its return only for the issues covered in the APA.

Capital Gains on buyback of shares

- It is proposed to tax income from the buyback of shares as Capital Gains instead of dividends. 'Promoters' will have to pay additional income tax as follows:

  a. Where promoter is a domestic company

Nature of income	Applicable tax rate	Additional tax rate	Effective tax rate
Short-term capital gains (listed shares)	20%	2%	22%
Long-term capital gains	12.5%	9.5%	22%

  b. Where promoter is any other person

Nature of income	Applicable tax rate	Additional tax rate	Effective tax rate
Short-term capital gains (listed shares)	20%	10%	30%
Long-term capital gains	12.5%	17.5%	30%

New Scheme for disclosure of foreign assets of small taxpayers

- The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 is proposed to be introduced to enable specified taxpayers to disclose foreign assets which have hitherto not been disclosed, subject to filing the declaration in the specified format and payment of additional taxes as specified. The date from which the above Scheme will take effect will be notified in due course.

- A taxpayer who files a declaration and makes the payment of tax/fee as per the Scheme will be granted immunity from the levy of any further tax or penalty as well as prosecution provisions under the Black Money (Undisclosed Foreign Income and Assets) Act, 2015 in respect of income or assets disclosed for the FY ending 31 March 2026 or any preceding years.

- **Withholding Taxes/Tax Collection at Source**

  - With effect from 1 October 2026, it is proposed that resident individuals/HUFs will not be required to obtain a Tax Deduction and Collection Account Number ('TAN') when depositing withholding tax on payments for the transfer of immovable property by non-resident sellers.

  - It is proposed to reduce the rate of Tax Collection at Source on Overseas Tour Packages and remittances under Limited Remittance Scheme ('LRS') for education and medical purposes (exceeding INR 1 Million) to 2%.

- **Other proposals**

  - It is proposed to extend the time limit to file a revised tax return by three months from 31 December of the following tax year to 31 March, with the payment of a nominal fee.

  - It is proposed that the penalty for under-reporting of income shall be imposed within the scrutiny order. However, in cases involving disputes, interest shall be levied on the amount of penalty only after the disposal of appeal by the Appellate Authorities. The proposed amendment will be applicable to draft scrutiny orders made on or after 1 April 2027.

  - It is proposed to increase the rate of Securities Transaction Tax ('STT') on futures and options.

  - It is proposed to rationalise and decriminalise several penalty and prosecution provisions.

II. INDIRECT TAXES

- **Customs duty**

  - The Customs duty on all goods imported for personal use is proposed to be reduced from 20% to 10%.

  - Basic Customs duty is proposed to be rationalised for various items such as food items, fertilizers, chemical and chemical products, coal and petroleum, minerals, etc.

  - It is proposed to extend the validity period of Advance Rulings from 3 years to 5 years.

  - A single integrated platform, Customs Integrated System ('CIS') is proposed to be introduced for all Customs processes.

- **Goods and Services Tax ('GST')**

  - It is proposed to provide that the place of supply in case of intermediary services shall now be determined based on the location of the recipient of service instead of the location of the supplier of service.

  - It is proposed to extend the benefit of provisional refund to refunds arising out of an inverted duty structure.

Should you wish to discuss any of the above issues in detail or understand the applicability to your specific situation, please feel free to reach out to us at coe@jmpadvisors.in.

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JMP Advisors offers advice in international taxation, domestic taxation, transfer pricing, mergers and acquisitions, Goods and Services Tax (GST), business laws and exchange control regulations and foreign investment consulting. We specialize in fiscal strategy, policy foresight and advocacy matters and are trusted advisors to high net worth families. Our team at JMP Advisors takes pride in being the best at what matters most to clients - technical expertise, innovative solutions, consistent, high quality service, reliability and ease of doing business.

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