



CA. PRASANTH SRINIVAS

S. S. AYYAR & CO.

CHARTERED ACCOUNTANTS, KOTTAYAM

Ph.: 9447125731, E-mail: ssayyarandco@gmail.com

Setting the stage

- Income Tax Act 2025 becomes effective from 01.04.2026
- No changes in tax rates or tax rebates
- Amendments are proposed in both the Acts
- The concept of 'tax year' gains significance while learning the amendments.
 - Tax year” means the twelve-month period beginning on the 1st day of April and ending on the 31st day of March immediately following that year. Tax year replaces the concept of “previous year” and “assessment year”. Income earned and taxed in the same tax year.
- Most of the amendments are procedural, some affect computation while a few are in the nature of corrigendum.
- CBDT has issued a FAQ on budget related amendments, which is very helpful in understanding the amendments. This is enclosed.

Rationalisation of Due Date for Employee Contribution (PF / ESI)

Subject: **Due date for crediting employee contribution**

Section Covered: **Section 29(1)(e) – Income-tax Act, 2025**

Clause No.: **Clause 31 of Finance Bill, 2026**

FAQ Reference: **X, Page 11**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

• Existing Provision

- Deduction allowed only if employee contribution is credited within statutory due date
- Due date governed by PF / ESI / Superannuation Fund laws
- Delay beyond such due date results in disallowance

• Proposal

- Employee contribution allowed as deduction if credited on or before return filing due date referred to in section 263(1)

• Parallel reference

- No amendment proposed to section 36(1)(va) of the Income-tax Act, 1961

Exemption on Interest Income under the Motor Vehicles Act, 1988

Subject: **Exemption on interest under the Motor Vehicles Act, 1988**

Section Covered: **Schedule III r/w section 11 – Income-tax Act, 2025**

Clause No.: **Clause 108 of Finance Bill, 2026**

FAQ Reference: **II, Page 2**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

- **Existing Provision**
 - Interest awarded by Motor Accidents Claims Tribunal is taxable in the hands of the recipient
- **Proposal**
 - Interest income awarded under the Motor Vehicles Act, 1988 shall be exempt
- **Parallel reference**
 - No corresponding exemption is proposed in Sections 56 & 57 & 10 of the Income-tax Act, 1961

No TDS on Interest on Compensation Awarded by MACT

Subject: **No TDS on interest awarded by MACT to an individual**

Section Covered: **Section 393(4) – Income-tax Act, 2025**

Clause No.: **Clause 72 of Finance Bill, 2026**

FAQ Reference: **III, Page 3**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

• Existing Provision

- As per section 393(4), no tax is required to be deducted at source on interest awarded by MACT if the aggregate amount does not exceed ₹50,000 during the tax year
- Interest on compensation awarded by MACT is taxable in the hands of the recipient

• Proposal

- No tax shall be deducted at source on any interest awarded by Motor Accidents Claims Tribunal
- Applies where such interest is credited or paid to an individual
- Consequential relief aligned with exemption of such interest income

• Parallel reference

- No corresponding exemption is proposed in Sections 56 & 57 & 10 of the Income-tax Act, 1961

Certificate for Deduction of Income-tax at Lower or Nil Rate

Subject: **E-filing and issue of certificate for lower / nil deduction of tax**

Section Covered: **Section 395 – Income-tax Act, 2025**

Clause No.: **Clause 74 of Finance Bill, 2026**

FAQ Reference: **IV, Page 5**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

• Existing Provision

- Section 395 provides for issuance of certificate for deduction of tax at lower rate or nil rate
- The payee is required to make an application before the Assessing Officer
- The Assessing Officer, after verification and satisfaction, issues the certificate if total income justifies lower or nil deduction

• Proposal

- To ease compliance burden of small taxpayers, it is proposed that the application for lower / nil deduction certificate may be made electronically
- Application shall be made to the prescribed income-tax authority
- The authority may issue the certificate electronically, subject to fulfilment of prescribed conditions
- Application may be rejected if prescribed conditions are not fulfilled or the application is incomplete

• Parallel reference

- No corresponding amendment is proposed in the Income-tax Act, 1961

TAN where Seller of Immovable Property is a Non-Resident

Subject: TAN by resident individual / HUF for purchase of immovable property from non-resident

Section Covered: 397(1)(c) r/w/s 393(2) Income-tax Act, 2025

Clause No.: Clause 75 of Finance Bill, 2026

FAQ Reference: IX, Page 10

Date: Effective from 1 April 2026 (Tax Year 2026–27 onwards)

• Existing Provision

- Where a resident individual or HUF purchases immovable property from a resident seller, TAN is not required
- However, where the seller is a non-resident, the buyer is required to obtain TAN to deduct tax at source.
- This results in compliance burden for a single transaction

• Proposal

- Resident individual or Hindu undivided family shall not be required to obtain TAN
- Applicable where tax is required to be deducted on consideration for transfer of immovable property from a non-resident
- Tax shall be deducted and reported using PAN-based challan-cum-statement

• Parallel reference

- No corresponding amendment is proposed in the Income-tax Act, 1961

Enabling Filing of Declaration for No Deduction to a Depository

Subject: **Filing of declaration for no deduction of tax to a depository**

Section Covered: **393(6) Income-tax Act, 2025**

Clause No.: **Clause 72 of Finance Bill, 2026**

FAQ Reference: **VI, Page 6 & 7**

Date: **Effective from 1 April 2027 (Tax Year 2027–28 onwards)**

• Existing Provision

- Section 393(6) provides that tax shall not be deducted at source in specified cases
- The assessee is required to furnish a written declaration for no deduction of tax to the person responsible for paying income
- Such declaration is required to be submitted separately to each payer in respect of dividend, interest from securities and income from units of mutual funds

• Proposal

- To reduce compliance burden, it is proposed to allow filing of declaration for no deduction of tax to the depository
- The depository shall make the declaration available to the person responsible for paying such income
- Time limit for furnishing declarations by the payer to the prescribed income-tax authority is changed from monthly to quarterly
- Applicable only where securities or units are held in a depository and are listed on a recognised stock exchange in India

• Parallel reference

- No corresponding amendment is proposed in the Income-tax Act, 1961

TDS on Supply of Manpower

Subject: **Applicability of TDS provisions on supply of manpower**

Section Covered: **393(1) r/w/s 402(27) Income-tax Act, 2025**

Clause No.: **Clause 78 of Finance Bill, 2026**

FAQ Reference: **IV, Page 4**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

• Existing Provision

- Section 393(1) [Table: Sl. No. 6(i)] provides for deduction of tax at source on payments to contractors for carrying out any work
- Section 393(1) [Table: Sl. No. 6(iii)] provides for deduction of tax at source on fees for professional or technical services
- Section 393(1) [Table: Sl. No. 6(ii)] provides for TDS on payments made by individual or HUF for work not covered under Sl. No. 6(i)
- There exists ambiguity regarding the applicable rate of TDS on payments for supply of manpower

• Proposal

- To provide clarity, it is proposed to include “supply of manpower” within the ambit of “work” in section 402(27)
- Consequently, provisions of section 393(1) [Table: Sl. No. 6(i)] or Sl. No. 6(ii), as the case may be, shall apply (i.e. 1% or 2% and not 10%)
- This removes ambiguity regarding applicability of TDS provisions on supply of manpower

• Parallel reference

- No corresponding amendment is proposed in the Income-tax Act, 1961

Compulsory Acquisition of Land under the RFCTLARR Act

Subject: **Exemption - compulsory acquisition of land - RFCTLARR Act**

Section Covered: **Schedule III r/w/s 11 - Income-tax Act, 2025**

Clause No.: **Clause 108 of Finance Bill, 2026**

FAQ Reference: **XLIV, Page 62**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

• Existing Provision

- Schedule III read with section 11 provides exemption to certain eligible persons on their total income
- The Schedule inter alia provides exemption to an individual or Hindu undivided family on income chargeable under the head “capital gains” arising from transfer of agricultural land, subject to specified conditions
- Section 96 of the RFCTLARR Act, 2013 provides that income-tax shall not be levied on any award or agreement made under the said Act (except those under section 46)

• Proposal

- To align the provisions of the Income-tax Act with the RFCTLARR Act, it is proposed to amend Schedule III
- Exemption shall be provided in respect of any income arising from any award or agreement on account of compulsory acquisition of land
- Applicable where such acquisition is carried out under the RFCTLARR Act, other than awards or agreements made under section 46 of the said Act

• Parallel reference

- CBDT Circular No. 36/2016 had clarified that compensation exempt under section 96 of the RFCTLARR Act shall not be taxable under the Income-tax Act, 1961 even in the absence of a specific exemption provision corresponding amendment is proposed in the Income-tax Act, 1961

Disability Pension to Armed Force Personnel

Subject: **Exemption - disability pension to ex soldiers**
Section Covered: **Sch III read with sec 11 – Income-tax Act, 2025**
Clause No.: **Clause 108 of Finance Bill, 2026**
FAQ Reference: **XLIII, Pages 61**
Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

• Existing Provision

- Disability pension is granted to members of the Armed Forces who are invalided out of service on account of bodily disability during service
- Disability pension comprises a service element and a disability element
- Exemption for disability pension has continued under the Income-tax Act, 1961 through repeal and savings clause, notifications, administrative instructions and clarificatory circulars

• Proposal

- It is proposed to provide statutory exemption for disability pension, including both the service element and the disability element
- Exemption shall be available only where the individual is invalided out of service on account of bodily disability attributable to, or aggravated by, such service
- Exemption shall not apply where the individual has retired on superannuation or otherwise
- The exemption is also proposed to be extended to paramilitary personnel

• Parallel reference

- Exemption for disability pension was available under the Income-tax Act, 1961 through administrative instructions and circulars

Rationalising Due Dates for Filing of Return of Income

Subject: **Rationalisation of due dates for filing return of income**

Section Covered: **Section 263(1)(c) – Income-tax Act, 2025**

Clause No.: **Clauses 5 & 57 of Finance Bill, 2026**

FAQ Reference: **VIII, Page 9**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

- **Existing Provision**
 - Section 263 provides the framework for filing original, belated, revised and updated returns
 - Different due dates are prescribed for different classes of assesseees based on audit and other conditions
 - Non-audit business cases and trusts were required to comply within comparatively shorter timelines – i.e., July 31
- **Proposal**
 - Due date for filing return of income for non-audit business or profession cases and partners of such firms is extended from 31st July to 31st August. **No mention to trusts not having business income seen – though mentioned in budget speech.**
 - Due date for assesseees whose accounts are required to be audited continues to be 31st October
 - Due date for cases involving transfer pricing continues to be 30th November
 - Due date for non audit - individuals filing ITR-1 and ITR-2 remains 31st July
- **Parallel reference**
 - Corresponding amendments proposed in Explanation-2 to section 139(1) of the Income-tax Act, 1961

Extending the Period for Filing Revised Returns

Subject: **Extension of time limit for filing revised return of income**

Section Covered: **Section 263(5) – Income-tax Act, 2025**

Clause No.: **Clauses 5, 12, 57 & 83 of Finance Bill, 2026**

FAQ Reference: **VII, Page8**

Date: **Effective from 1 April 2026(Tax Year 2026–27 onwards)**

• Existing Provision

- Section 263(5) permits filing of a revised return to correct any omission or wrong statement in the original or belated return
- Revised return is required to be furnished within nine months from the end of the relevant tax year or before completion of assessment, whichever is earlier
- Revised return and belated return timelines coincide, restricting opportunity to revise returns filed at the end of the period

• Proposal

- The prescribed time limit for filing revised return is proposed to be extended from nine months to twelve months from the end of the relevant tax year
- This enables taxpayers who file belated returns at the end of the period to subsequently file a revised return
- Corresponding amendment proposed in section 428(b) to levy fee for revised returns filed beyond nine months – **Rs. 5000 if TI > 5L else Rs. 1000**

• Parallel reference

- Parallel amendments proposed in section 139(5) and section 234I of the Income-tax Act, 1961

Filing of Updated Return in Case of Reduction of Losses

Subject: **Scope of filing updated return where loss is reduced**

Section Covered: **Section 263(6) – Income-tax Act, 2025**

Clause No.: **Clauses 5 & 57 of Finance Bill, 2026**

FAQ Reference: **XIX, Pages 27**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

- **Existing Provision**
 - Section 263(6) permits filing of an updated return within forty-eight months from the end of the relevant tax year, subject to prescribed conditions
 - Updated return cannot be a return of loss, cannot reduce tax liability and cannot increase refund
 - Updated return is not permitted where assessment, reassessment, search, survey or prosecution proceedings are pending or completed
 - Accordingly, where the original return was a return of loss, filing of an updated return merely to reduce such loss was not permitted
- **Proposal**
 - It is proposed to amend section 263(6) to allow filing of an updated return where the taxpayer reduces the amount of loss
 - Applicable where loss claimed in the original return filed within the due date under section 263(1) is partially reduced
 - This enables correction of excessive loss claims without converting the return into a return of income
 - Restriction on filing updated return solely due to reduction of loss is accordingly relaxed
- **Parallel reference**
 - Similar amendments are proposed in the Income-tax Act, 1961 to align provisions relating to updated return

Updated Return after Issuance of Notice of Reassessment

Subject: **Filing updated return after issue of notice of reassessment**
Section Covered: **263(6), 263(6)(c)(v) and 267 – Income-tax Act, 2025**
Clause No.: **Clauses 5 & 57 of Finance Bill, 2026**
FAQ Reference: **XIX, Page 28**
Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

- **Existing Provision**
 - Filing of updated return is not permitted where assessment, reassessment, search, survey or prosecution proceedings are pending or completed
 - Section 263(6)(c)(v) specifically prohibits filing of updated return where reassessment proceedings have been initiated
- **Proposal**
 - It is proposed to allow filing of updated return even after issuance of notice of reassessment under section 280
 - Updated return may be furnished within the period specified in such notice
 - In such cases, assessee shall be precluded from filing return of income otherwise in response to such notice
 - Additional income-tax payable on such updated return shall be increased by a further 10% of aggregate of tax and interest payable
 - Where additional income-tax is paid as prescribed, the income so disclosed shall not form the basis for penalty under section 439 (**present 270A**)
- **Parallel reference**
 - Corresponding amendments are proposed in the Income-tax Act, 1961 to allow filing of updated return after issuance of notice under section 148 - come into force from 1 March 2026

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

Subject: **Disclosure of foreign assets and foreign-sourced income of small taxpayers**

Section Covered: **Black Money Act, 2015**

Clause No.: **Clauses 114 to 128 of Finance Bill, 2026**

Date: **Effective from date to be notified by the Central Government**

- **Existing Provision**
 - The Black Money Act, 2015 provides for taxation and penal consequences in respect of undisclosed foreign income and assets
 - A one-time compliance window was earlier provided from 1 July 2015 to 30 September 2015 for voluntary declaration of undisclosed foreign assets
 - Instances of non-compliance continue, particularly among small taxpayers, involving legacy or inadvertent non-disclosures of foreign assets
- **Proposal**
 - It is proposed to introduce a time-bound disclosure scheme for declaration of foreign assets and foreign-sourced income of small taxpayers
 - Declaration to be made on payment of tax or fee based on the nature and source of acquisition of such assets or income
 - Scheme provides for limited immunity from penalty and prosecution under the Black Money Act in respect of matters covered by the declaration
 - Cases involving prosecution or proceeds of crime shall be excluded from the scope of the scheme
- **Parallel reference**
 - Similar voluntary disclosure window was earlier provided in 2015 under the Black Money Act

Penalties into Fee

Subject: **Conversion of specified penalties into mandatory fee**

Section Covered: **446, 447, 454, 427 & 428 – Income-tax Act, 2025**

Clause No.: **Clauses 83, 88 & 89 of Finance Bill, 2026**

FAQ Reference: **XV, Pages 21**

Date: **Effective from 1 April 2026 (Tax Year 2026–27 onwards)**

• Existing Provision

- Section 446 – penalty - failure to get accounts audited
- Section 447 – penalty - failure to furnish TP report
- Section 454 – penalty - failure to furnish statement of financial transactions or reportable account, including daily penalty for continuing default
- Penalties are discretionary and lead to litigation even in cases of technical or procedural delays

• Proposal

- Penalties for specified procedural defaults are proposed to be converted into mandatory fee
- Penalty under section 446 for failure to get accounts audited is converted into a graded fee under section 428(c), with fee of ₹75,000 **(1 day to 1 month)** or ₹1,50,000 **(beyond 1 month)** based on period of delay.
- Penalty under section 447 for failure to furnish report under section 172 is converted into a graded fee under section 428(4), with fee of ₹50,000 **(1 day to 1 month)** or ₹1,00,000 **(beyond 1 month)** based on period of delay
- Penalty under section 454(1) for failure to furnish statement of financial transactions or reportable account is converted into a fee under section 427(3)
- An upper limit of ₹1,00,000 is proposed for penalty under section 454(2)

• Parallel reference

- No corresponding proposal in the Income-tax Act, 1961

Penalty for Under-reporting or Misreporting of Income within Assessment Order

Subject: **Imposition of penalty for under-reporting or misreporting of income within the assessment order**

Section Covered: **Sections 274, 220 & 245MA – Income-tax Act, 1961**

Clause No.: **Clauses 11, 13 & 14 of Finance Bill, 2026**

FAQ Reference: **XIII, Pages 17–18**

Amendment effective from: **Applicable to assessment orders passed on or after: 1 April 2027**

• Existing Provision

- Assessment order is passed first and penalty proceedings are initiated separately
- Separate show-cause notice is issued and independent penalty order is passed
- Interest under section 220(2) is charged from expiry of demand notice
- Dispute Resolution Committee (DRC) may reduce or waive penalty

• Proposal

- Penalty for under-reporting or misreporting of income under section 270A to be imposed within the assessment order itself
- Separate penalty proceedings to be eliminated
- Interest under section 220(2) to be charged only after passing of appellate order by CIT(A) / ITAT, as applicable
- Consequential amendment proposed in section 245MA

• Parallel reference

- Changes proposed in 2025 Act to give effect this

Tax Rate under Section 195 and Penalty under Section 443

Subject: Rationalization of tax rate and penalty in respect of income referred to in sections 102 to 106

Section Covered: Sections 195 and 443 – Income-tax Act, 2025

Clause No.: Clauses 46, 84 & 86 of Finance Bill, 2026

FAQ Reference: XVII, Page 25

Effective from 1 April 2026 (Applicable for Tax Year 2026–27 onwards)

• Existing Provision

- Section 195 provides for tax on income referred to in sections 102 to 106, including unexplained credits, unexplained investment, unexplained money, unexplained expenditure and certain borrowings
- Where total income includes such income, tax is levied at a flat rate of 60% under section 195(1)
- Section 443 provides for penalty at 10% of tax payable on such income determined by the Assessing Officer

• Proposal

- To rationalize taxation, it is proposed to reduce the tax rate from 60% to 30% under section 195
- Penalty provision under section 443 is proposed to be omitted
- Such income shall instead be covered under misreporting of income and penalty shall be levied under section 439(11), as applicable.

• Parallel reference

- No corresponding proposal in the Income-tax Act, 1961 Sections - 68, 69, 69A-69D, 115BBE & 271AAC

Immunity from Penalty or Prosecution - Section 440

Subject: **Expansion of scope of immunity from penalty or prosecution**

Section Covered: **Section 440 – Income-tax Act, 2025**

Clause No.: **Clause 85 of Finance Bill, 2026**

FAQ Reference: **XIV, Page 19**

Date: **From 1 April 2026 (Applicable for Tax Year 2026–27 onwards)**

• Existing Provision

- Section 440 provides for grant of immunity from penalty or prosecution by the Assessing Officer
- Immunity may be granted where:
 - tax and interest payable as per assessment order are paid within the specified time, and
 - no appeal is filed against such assessment order
- Immunity is presently available only in cases of under-reporting of income
- Immunity is not available where under-reporting arises in consequence of misreporting of income

• Proposal

- It is proposed to extend the scope of immunity to cases where under-reporting of income arises in consequence of misreporting
- Applicable where penalty is initiated for under-reporting due to misreporting
- Taxpayer shall be required to pay additional income-tax equal to 100% of tax payable on such income in lieu of penalty
- Immunity shall cover both penalty and prosecution proceedings in respect of such income

• Parallel reference

- Sections in Income-tax Act, 1961 separately dealt with

Immunity from Penalty or Prosecution - Section 270AA

Subject: **Expansion of scope of immunity from penalty or prosecution**

Section Covered: **Section 270AA – Income-tax Act, 1961**

Clause No.: **Clause 15 of Finance Bill, 2026**

FAQ Reference: **No direct FAQ**

Date: **Amendment effective from: 1 March 2026**

Applicable for: AY 2026–27 and earlier Assessment Years

• Existing Provision

- Section 270AA provides for grant of immunity from penalty and prosecution by the AO where:
 - tax and interest payable as per assessment order are paid within the time specified in notice of demand, and
 - no appeal is filed against such assessment order
- Application for immunity is required to be filed within one month from the end of the month in which assessment order is received
- Immunity can presently be granted only in cases of under-reporting of income
- Immunity is not available where under-reporting arises in consequence of misreporting of income

• Proposal

- It is proposed to extend the scope of immunity to cases where under-reporting of income arises in consequence of misreporting
- Applicable where penalty is initiated for under-reporting of income due to misreporting
- Taxpayer shall be required to pay additional income-tax equal to 100% of tax payable on such income in lieu of penalty
- On fulfilment of conditions, immunity shall be granted from penalty under section 270A and prosecution under sections 276C / 276CC

• Parallel reference

- Sections in Income-tax Act, 2025 separately dealt with

Minimum Alternate Tax (MAT) Provisions

Subject: **Rationalization of Minimum Alternate Tax provisions**

Section Covered: Section 206 – **Income-tax Act, 2025**

Clause No.: **Clause 50 of Finance Bill, 2026**

FAQ Reference: **XXXIV, Page 46**

Effective from **1 April 2026 (Applicable for Tax Year 2026–27 onwards)**

• Existing Provision

- Section 206 provides for levy of Minimum Alternate Tax (MAT) on companies
- MAT is levied on book profit at 15% (other than units in IFSC)
- Where MAT exceeds normal tax liability, MAT is payable
- Excess MAT paid is allowed as MAT credit, which can be carried forward for 15 years and set off against future normal tax liability

• Proposal

- MAT paid under the old tax regime shall be treated as final tax and no further MAT credit shall be allowed
- MAT rate is proposed to be reduced from 15% to 14% of book profit
- Set-off of MAT credit shall be allowed only in the new tax regime for domestic companies, limited to 25% of tax liability
- In case of foreign companies, set-off shall be allowed to the extent of difference between normal tax and MAT for the relevant tax year. i.e. MAT credit NA henceforth

• Parallel reference

- Sections in Income-tax Act, 1961 not touched.

Rationalisation of TCS Rates

Subject: **Rationalization of rates of Tax Collection at Source (TCS)**

Section Covered: **Section 394(1) – Income-tax Act, 2025**

Clause No.: **Clause 73 of Finance Bill, 2026**

FAQ Reference: **XXXVI, Page 51**

Date: **Effective from 1 April 2026**

• Existing Provision

- Section 394(1) provides for multiple rates of TCS on specified receipts
- Different rates apply to sale of alcoholic liquor, tendu leaves, scrap, minerals and certain remittances
- Higher and non-uniform rates result in compliance burden and business distortion, particularly in overseas tour packages and LRS remittances

• Proposal

- TCS rates are proposed to be rationalised and largely aligned to 2%, as under:
 - Sale of alcoholic liquor for human consumption: **1% → 2%**
 - Sale of tendu leaves: **5% → 2%**
 - Sale of scrap: **1% → 2%**
 - Sale of minerals (coal, lignite or iron ore): **1% → 2%**
 - Remittances under LRS for education or medical treatment exceeding ₹10 lakh: **5% → 2%**
 - Sale of overseas tour programme package: **5% / 20% → 2%, without threshold**

• Parallel reference

- Sections in Income-tax Act, 1961 not touched.

Jurisdiction to Issue Notice under Section 148 and Conduct Pre-assessment Procedure under Section 148A

Subject: Clarification on jurisdiction for issuance of notice under section 148 and pre-assessment procedure under section 148A

Section Covered: 148, 148A & 144B – Income-tax Act, 1961

Clause No.: Clauses 8 & 62 of Finance Bill, 2026

Date: Income-tax Act, 1961: retrospectively from 1 April 2021

Income-tax Act, 2025: Effective from 1 April 2026

- Existing Provision
 - Reassessment under section 147 follows a two-step procedure
 - Pre-assessment enquiry is conducted under section 148A by the Assessing Officer
 - If satisfied, notice under section 148 is issued along with a reasoned order under section 148A(d)
 - After issue of notice under section 148, assessment is carried out in a faceless manner by NaFAC under section 144B
 - Divergent judicial views exist on whether pre-assessment enquiry should be conducted by NaFAC or the Assessing Officer
- Proposal
 - It is clarified that pre-assessment enquiry under section 148A and issuance of notice under section 148 shall always be undertaken by the Assessing Officer
 - Jurisdiction of NaFAC or its Assessment Units shall apply only after issuance of notice under section 148
 - Clarification is proposed notwithstanding any judgment, decree or order of any court
 - Similar clarification is incorporated in the Income-tax Act, 2025 to ensure consistency and avoid litigation
- Parallel reference
 - Consequential clarification in Income-tax Act, 2025.

Mistake in Quoting Computer-Generated DIN

Subject: **Validity of assessment despite mistake, defect or omission in quoting computer-generated DIN**

Section Covered: **Section 292B – Income-tax Act, 1961**

Clause No.: **Clauses 26 & 106 of Finance Bill, 2026**

Date: **Income-tax Act, 1961: retrospectively from 1 October 2019**

Income-tax Act, 2025: Effective from 1 April 2026

- **Existing Provision**
 - Section 292B provides that no return of income, assessment, notice, summons or other proceeding shall be invalid merely due to any mistake, defect or omission
 - CBDT Circular No. 19 of 2019 mandated quoting of computer-generated DIN on communications issued by the Income-tax Department
 - Judicial precedents have held assessments invalid in cases where DIN was not quoted or quoted incorrectly
 - Divergent views emerged on whether section 292B could save such assessments
- **Proposal**
 - It is proposed to clarify section 292B that assessment shall not be invalid merely on account of any mistake, defect or omission in quoting computer-generated DIN
 - Such assessment shall be valid where it is otherwise in substance and effect in conformity with the intent and purpose of the Act
 - Similar clarification is proposed in the Income-tax Act, 2025 to ensure uniform interpretation and reduce litigation
- **Parallel reference**
 - Consequential clarification in Income-tax Act, 2025.

Merger of Non-Profit Organisations (NPOs)

Subject: **Taxability of accreted income on merger of registered non-profit organisations**

Section Covered: **Sections 352(4) & 354A – Income-tax Act, 2025**

Clause No.: **Clauses 69 & 70 of Finance Bill, 2026**

Date: **From 1 April 2026 (Applicable for Tax Year 2026–27 onwards)**

• Existing Provision

- Section 352(4) provides for levy of tax on accreted income where a specified person merges with any entity other than a registered non-profit organisation having the same or similar objects
- Existing provisions do not cover cases where a registered non-profit organization merges with another registered non-profit organization having the same or similar objects
- Section 12AC of the Income-tax Act, 1961 provides relief in such cases, but no corresponding provision exists in the Income-tax Act, 2025

• Proposal

- It is proposed to insert section 354A to provide that provisions of section 352 shall not apply where a registered non-profit organization merges with another registered non-profit organization, if:
 - the other registered non-profit organisation has same or similar objects, and
 - the merger fulfils such prescribed conditions
- Section 352(4) is proposed to be amended to clarify that tax on accreted income shall apply where merger is with:
 - an entity other than a registered non-profit organization; or
 - a registered non-profit organization having dissimilar objects; or
 - a registered non-profit organization where prescribed conditions are not fulfilled

• Parallel reference

- Provision aligned with sec 12AC of the Income-tax Act, 1961.

Violations by a Registered NPO

Subject: **Rationalization of specified violations applicable to registered non-profit organizations**

Section Covered: **Sections 351 & 353 – Income-tax Act, 2025**

Clause No.: **Clause 68 of Finance Bill, 2026**

Date: **From 1 April 2026 (Applicable for Tax Year 2026–27 onwards)**

- **Existing Provision**
 - Section 351 specifies activities constituting “specified violation” by a registered non-profit organization
 - Such violations include carrying on commercial activities by an NPO engaged in advancement of any other object of general public utility
 - Such violation is also covered under “other violation” in section 353
 - Inclusion of such violation under section 351 may result in cancellation of registration of the NPO
- **Proposal**
 - It is proposed to remove reference to such violation from section 351
 - This aligns the provisions of the Income-tax Act, 2025 with the Income-tax Act, 1961, where such violation does not result in cancellation of registration
 - Such violation shall continue to be covered under section 353 as “other violation”
- **Parallel reference**
 - Aligned with treatment of similar violations under the Income-tax Act, 1961

Remove Certain Funds from Requirement of Registration

Subject: **Removal of specified funds from requirement of registration as registered NPO**

Section Covered: **Section 332(1)(f) – Income-tax Act, 2025**

Clause No.: **Clause 66 of Finance Bill, 2026**

Date: **From 1 April 2026(Applicable for Tax Year 2026–27 onwards)**

- **Existing Provision**
 - Section 332 specifies persons eligible to apply for registration as a registered non-profit organization
 - Section 332(1)(f) includes persons referred to in Schedule VII (Table Sl. No. 10) and Table Sl. No. 16
 - Such persons were not required to obtain registration under the Income-tax Act, 1961 to claim exemption under section 10 (E.g. 10(23C((iii)ac), (iii)ad) etc.)
 - Inclusion of such persons in section 332(1)(f) creates ambiguity regarding registration requirement under the new Act
- **Proposal**
 - It is proposed to remove the reference to such persons from section 332(1)(f)
 - Consequently, such persons shall not be required to obtain registration under section 332 of the Income-tax Act, 2025
- **Parallel reference**
 - The amendment aligns the provision with the Income-tax Act, 1961 and provides clarity

Filing of Belated Return by NPO

Subject: **Enabling filing of belated return by registered NPO**

Section Covered: **Section 349 – Income-tax Act, 2025**

Clause No.: **Clause 67 of Finance Bill, 2026**

Date: **From 1 April 2026(Applicable for Tax Year 2026–27 onwards)**

- **Existing Provision**
 - Section 349 provides for furnishing of return by a registered non-profit organization
 - Return is required to be furnished within the time limit specified under section 263(1)(c)
 - There is no express provision enabling filing of a belated return by a registered NPO
- **Proposal**
 - It is proposed to amend section 349 to include reference to section 263(4) This enables registered non-profit organizations to furnish a belated return
- **Parallel reference**
 - The amendment aligns the provisions of the Income-tax Act, 2025 with the Income-tax Act, 1961

Non-allowability of interest as deduction against Dividend Income

Subject: **Disallowance of interest deduction against dividend income and income from units of mutual funds**

Section Covered: **Section 93(2) – Income-tax Act, 2025**

Clause No.: **Clause 36 of Finance Bill, 2026**

FAQ Reference: **XL, Page 58**

Date: **From 1 April 2026(Applicable for Tax Year 2026–27 onwards)**

• Existing Provision

- Dividend income and income from units of mutual funds are taxable under the head “Income from other sources”
- Section 93 allows deduction of interest expenditure incurred for earning such income
- Such deduction is restricted to 20% of the gross dividend income or income from units of mutual funds

• Proposal

- It is proposed to amend section 93(2) 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
- The existing allowance of interest deduction, even with a ceiling (20%), is proposed to be completely withdrawn

• Parallel reference

- No reference is drawn to Income-tax Act, 1961

Exemption for Sovereign Gold Bond

Subject: **Capital gains exemption on redemption of SGB**
Section Covered: **Section 70(1)(x) – Income-tax Act, 2025**

Clause No.: **Clause 35 of Finance Bill, 2026**

FAQ Reference: **XXXVIII, Page 54**

Date: **From 1 April 2026 (Applicable for Tax Year 2026–27 onwards)**

- **Existing Provision**

- Section 70(1)(x) provides exemption from capital gains tax on income arising from redemption of Sovereign Gold Bonds
- Sovereign Gold Bonds are issued by the Reserve Bank of India under the Sovereign Gold Bond Scheme, 2015
- Bonds are issued in multiple series, each series constituting a separate issuance

- **Proposal**

- It is proposed to amend section 70(1)(x) to ensure uniform application of exemption across all issuances
- Exemption shall be available only where the Sovereign Gold Bond is subscribed at the time of original issue
- Such bond must be held continuously by the subscriber until redemption on maturity

- **Parallel reference**

- No reference is drawn to Income-tax Act, 1961

Taxation of Buy-back of Shares

Subject: **taxation of consideration received on buy-back of shares**

Section Covered: **Sections 2(40)(f) & 69 – Income-tax Act, 2025**

Clause No.: **Clauses 27 & 34 of Finance Bill, 2026**

FAQ Reference: **XXXV, Page 49**

Date: **from 1 April 2026(Applicable for Tax Year 2026–27 onwards)**

• Existing Provision

- Consideration received by a shareholder on buy-back of shares is treated as dividend income under section 2(40)(f)
- Such dividend income is taxed in the hands of the shareholder
- Cost of acquisition of shares extinguished on buy-back is recognized separately as a capital loss under section 69

• Proposal

- It is proposed to rationalise taxation of share buy-backs by treating consideration received on buy-back as capital gains, instead of dividend income
- In case of promoters, effective tax on gains arising from buy-back shall be 30%, comprising tax at applicable rates along with additional tax
- In case of promoter companies, the effective tax liability shall be 22%

• Parallel reference

- No reference is drawn to Income-tax Act, 1961

OTHER AMENDMENTS

Subject	Section – IT Act 2025	Section – IT Act 1961	Proposal	Effective date – IT Act 2025	Effective date – IT Act 1961	Clause of Finance Bill
Relaxation of conditions for prosecution under the Black Money Act	Black Money Act, 2015 Sections 49 & 50)	Black Money Act, 2015 Sections 49 & 50)	Prosecution for wilful non-disclosure of foreign assets (other than immovable property) shall not apply where aggregate value does not exceed ₹20 lakh, to provide relief for minor / inadvertent defaults	01.10.2024	01.10.2024	Clause 144
Rationalisation of prosecution proceedings	Sections 473 to 485 & 494	Sections 275A to 278A & 280	Decriminalisation / partial decriminalisation of certain offences; rigorous imprisonment replaced with simple imprisonment; maximum imprisonment capped at 2 years; fine-only punishment where tax involved ≤ ₹10 lakh; graded punishment based on amount involved; fine introduced in lieu of / in addition to imprisonment	1 April 2026	1 March 2026	Clauses 17 to 25 and 93 to 105
Rationalising the period of block assessment in case of “other persons”	Section 295	No reference	Block period for “other person” restricted where undisclosed income pertains only to a single tax year, reducing unnecessary compliance burden	1 April 2026 (for search/requisition initiated on or after this date)	No reference	Clause 64

OTHER AMENDMENTS

Subject	Section – IT Act 2025	Section – IT Act 1961	Proposal	Effective date – IT Act 2025	Effective date – IT Act 1961	Clause of Finance Bill
Referencing time limit for completion of block assessment to initiation of search or requisition	Section 296	No reference	Date of initiation of search/requisition to be taken as reference point for limitation; time limit for completion of block assessment extended from 12 months to 18 months	1 April 2026 (for search / requisition initiated on or after this date)	No reference	Clause 65
Increase in maximum amount of penalty	Section 466	No reference	Maximum penalty for failure to comply with power to collect information increased from ₹1,000 to ₹25,000 to ensure adequate deterrence	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	90
Deduction in respect of dividends received and distributed by certain cooperative societies	Sections 149(2)(d) and 150	No reference	Deduction on dividends received from other cooperative societies allowed in new tax regime if further distributed to members; deduction for dividends received by notified federal cooperatives from companies allowed for 3 years (up to AY 2028-29), subject to conditions	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clauses 39, 40, 48 & 49
Widening scope of deduction by including ancillary activities of cattle feed and cotton seeds	Section 149(2)(b)	No reference	Profits and gains from supply of cattle feed and cotton seeds by primary cooperative societies included within eligible deduction Prasanth Srinivas	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 39

OTHER AMENDMENTS

Subject	Section – IT Act 2025	Section – IT Act 1961	Proposal	Effective date – IT Act 2025	Effective date – IT Act 1961	Clause of Finance Bill
Inclusion of Multi-State Cooperative Societies in definition of “co-operative society	Section 2(32)	No reference	Definition of “co-operative society” expanded to include societies registered under the Multi-State Cooperative Societies Act, 2002	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 27
Enabling filing of return / modified return by Associated Enterprise pursuant to APA	Section 169	No reference	Associated enterprise permitted to file return or modified return in line with income modification arising from Advance Pricing Agreement, within prescribed time	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 45
Exemption to foreign company for income from procuring data centre services from specified data centre in India	Section 11 read with Schedule IV	No reference	Exemption granted to foreign companies on income arising or deemed to arise in India from procuring data centre services from a specified data centre, subject to conditions, for a limited period	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 109
Allowing expenditure on prospecting of critical minerals as deduction	Section 51 read with Schedule XII	No reference	Schedule XII expanded to include critical minerals, thereby allowing deduction of expenditure on prospecting and exploration of such minerals	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 112
Exemption to foreign company for income from supply of capital equipment to electronic goods manufacturer in customs bonded area	Section 11 read with Schedule IV	No reference	Exemption granted to foreign companies on income arising from supply of capital goods, equipment or tooling to a contract manufacturer located in a <u>customs</u> bonded area for manufacture of electronic goods	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 109

OTHER AMENDMENTS

Subject	Section – IT Act 2025	Section – IT Act 1961	Proposal	Effective date – IT Act 2025	Effective date – IT Act 1961	Clause of Finance Bill
Exclusion of specified presumptive businesses of non-residents from MAT	Section 61 read with MAT provisions	No reference	Certain additional specified businesses of non-residents opting for presumptive taxation excluded from applicability of Minimum Alternate Tax	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 50
Exemption to non-residents for rendering services under notified Scheme in India	Section 11 read with Schedule IV	No reference	Exemption to non-resident individuals for income from services rendered in India under notified Government Schemes, subject to conditions	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 109
Extension of period of deduction for units in IFSC and rationalisation of tax rate	Section 147	No reference	Period of 100% deduction for IFSC units extended to 20 years; post-deduction business income taxable at 15%	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clauses 38 & 51
Rationalisation of certain terms for treasury centres in IFSC	Section 2(40)	No reference	Definitions relating to group entity, parent entity and eligible jurisdiction rationalised for treasury centres in IFSC	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 27
Allowing deduction to non-life insurance business where TDS not deducted earlier is paid later	Schedule XIV (Part B) read with section 35(b)(i) & (ii)	No reference	Amounts disallowed earlier in computation of non-life insurance business income due to non-deduction / non-payment of TDS to be allowed as deduction in the year in which TDS is deducted and paid	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clause 113
Clarifying computation of sixty days for passing order by Transfer Pricing Officer	Corresponding provision relating to TPO time limits (aligned with section 92CA)	Section 92CA(3A)	Clarification that the period of sixty days for passing TPO order shall be computed by including the date of limitation for completion of assessment, to remove ambiguity and reduce litigation	1 April 2026	Retrospective from 1 June 2007	Clauses 4 & 44

OTHER AMENDMENTS

Subject	Section – IT Act 2025	Section – IT Act 1961	Proposal	Effective date – IT Act 2025	Effective date – IT Act 1961	Clause of Finance Bill
Amendments to Chapter XIII-G to give effect to extension of tonnage tax scheme to inland vessels	Sections 227, 228, 232 & 235 (Chapter XIII-G)	No reference	Provisions of tonnage tax scheme aligned to cover inland vessels, including changes in certification, computation of tonnage income, core activities, training requirements, designated authority, and definition of Inland Waterways Authority of India	1 April 2026 (applicable from tax year 2026-27 onwards)	No reference	Clauses 52, 53, 54 & 55
Penalty for non-furnishing or furnishing inaccurate statement of crypto-asset transactions	Sections 509 & 446	No reference	Penalty introduced for non-furnishing of statement at ₹200 per day and for furnishing inaccurate particulars at ₹50,000 to ensure compliance	1 April 2026	No reference	Clause 87
Definition of “commodity derivative”	Section 66	Section 43(5)	Definition of “commodity derivative” inserted in IT Act 2025 in line with definition under IT Act 1961	1 April 2026	Already defined	Clause 33
Definition of “authorised person”	Section 402(27)	Section 195	Definition of “authorised person” inserted in IT Act 2025 in line with definition under IT Act 1961 for alignment and clarity	1 April 2026	Already defined	Clause 78
Correction of referencing error relating to clubbing provisions	Section 99(2)	Section 64	Incorrect reference in section 99(2) corrected from section 99(1)(a)(i) to section 99(1)(a)(ii) to align with correct clubbing provision	1 April 2026	Already aligned	Clause 37
Correction of referencing error in TDS on sale of immovable property	Section 393(1) – Table Sl. No. 3(i) (Note 3)	Section 194-IA	Erroneous reference in Note 3 corrected to reflect correct provision governing TDS on sale of immovable property	1 April 2026	Already aligned	Clause 72

OTHER AMENDMENTS

Subject	Section – IT Act 2025	Section – IT Act 1961	Proposal	Effective date – IT Act 2025	Effective date – IT Act 1961	Clause of Finance Bill
Correction relating to income from house property – stock-in-trade	Section 21(5)	Section 23(5)	Provision aligned to allow annual value of house property held as stock-in-trade to be taken as nil up to two years from end of financial year of completion certificate	1 April 2026	Already aligned	Clause 29
Inclusion of prior-period interest within deduction limit for self-occupied house property	Section 22(2)	Section 24(b)	Aggregate limit of ₹2 lakh for interest on borrowed capital clarified to include prior-period interest	1 April 2026	Already aligned	Clause 30
Empowering CBDT to prescribe PAN quoting in non-business documents	Section 262(10)(c)	Section 139A(5)(c)	CBDT empowered to make rules for quoting PAN in documents relating to transactions not connected with business or profession	1 April 2026	Already aligned	Clause 56
Binding nature of guidelines issued for TDS/TCS provisions	Section 400(2)	Corresponding provisions relating to binding guidelines under TDS/TCS	Guidelines issued to remove difficulties in giving effect to TDS/TCS provisions to be made binding on income-tax authorities and on persons liable to deduct or collect tax	1 April 2026	No change	Clause 77
Clarifying repeal and savings clause for taxation of amounts allowed earlier	Section 536(2)(h)	No reference	Clarification that amounts allowed as deduction or not taxed under the repealed Act shall be deemed income under IT Act, 2025 even without violation of conditions, if taxable under IT Act, 1961	1 April 2026 (from tax year 2026-27 onwards)	No reference	Clause 107
Amendment in definition of “specified fund”	Schedule VI (Note 1(g))	Section 10(4D)	Definition of “specified fund” aligned with definition under Income-tax Act, 1961 for consistency	1 April 2026 (from tax year 2026-27 onwards)	Already defined	Clause 110

OTHER AMENDMENTS

Subject	Section – IT Act 2025	Section – IT Act 1961	Proposal	Effective date – IT Act 2025	Effective date – IT Act 1961	Clause of Finance Bill
Rationalisation of Schedule XI relating to Provident Funds	Schedule XI	No reference	Schedule XI rationalised to align with EPF framework, unify monetary ceilings, remove overlaps, and relax rigid investment and contribution limits	1 April 2026 (from tax year 2026-27 onwards)	No reference	Clause 111
No TDS on interest paid to co-operative banks	Section 393(4) (Table Sl. No. 7)	Section 194A	TDS exemption extended to interest (other than securities) credited or paid to co-operative societies engaged in banking, including co-operative land mortgage banks	1 April 2026	Already provided	Clause 72
Clarifying time-limit for completion of assessment under special procedure (Draft order cases)	Corresponding provisions relating to draft assessment procedure (aligned with section 144C)	Sections 144C, 153 and 153B	Clarification that time limits prescribed under section 144C for completing assessment shall prevail and operate independently, notwithstanding time limits under sections 153 or 153B, to remove ambiguity and litigation	1 April 2026	Retrospective – from 1 April 2009 (section 153) and 1 October 2009 (section 153B)	Clauses 7, 9, 10, 61 & 63
Increase in tax rates of Securities Transaction Tax (STT)	Provisions relating to STT under the Act	Chapter VII of Finance (No. 2) Act, 2004	STT rates increased on derivatives transactions: (i) sale of options increased from 0.1% to 0.15% of option premium; (ii) sale of options on exercise increased from 0.125% to 0.15% of intrinsic price; (iii) sale of futures increased from 0.02% to 0.05% of traded price	1 April 2026 (for transactions entered on or after this date)	Not applicable	Clause 143

Post Budget Musings

- The relief proposed in respect of employees' contribution of PF should have been extended under the 1961 Act also. The matter, however, is sub-judice.
- The fine prescribed for tax audit default is too harsh. It should have been a staggered fees starting from Rs. 5,000 (1 month), Rs. 10,000 (2 months), Rs. 15,000 (3 months), Rs. 50,000 (3 months to 6 months), Rs. 1,00,000 (6 months to 1 year), Rs. 1,50,000 (beyond 6 months). Moreover, there should be a reasonable clause window for charging this fine.
- Tax audit due date should have been re-aligned with the ITR due date. (remove 1 month before concept)
- Post covid the stamp duty value in many places are high compared to actual consideration. Suitable amendment in this regard was expected.
- Though said in budget speech – ITR due date in non audit trust cases remains at July 31.
- The reduction in tax rate vis a vis unexplained sources in the new Act should have been brought in the 1961 Act also.
- 1961 Act provides for deemed application of income by filing Form No. 9A when income is not received. Parallel provision could have been inserted in 2025 Act.

thank you...

- **Income-tax Act, 2025 is the present.**
- **Income-tax Act, 1961 is in limbo**
- **So we should know both**

**“The law has changed.
The responsibility has doubled.”**