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CORPORATE • REGULATORY • TAX

Budget 2026 – Positioning India for the World!

Nirmala Sitharaman presented **Budget 2026** earlier today. The announcements are both innovative and all-encompassing, marking a conscious shift beyond the traditional focus on manufacturing, financial markets, and capital-intensive sectors.

The Budget demonstrates a refreshing breadth in policy thinking. Initiatives to promote tourism, archaeology, astronomy, handloom and handicrafts, Ayurveda, and the Indian wellness sector signal a clear intent to unlock India's vast but underutilised cultural and knowledge-based potential. At the same time, structural reforms such as Biopharma Shakti, aimed at developing India into a global biopharmaceutical manufacturing hub, is a step forward for consolidating India's manufacturing capabilities as well as putting the lime light on India's public health infrastructure.

The emphasis on mineral-rich states such as Odisha, Kerala, Andhra Pradesh, and Tamil Nadu, through the proposed establishment of dedicated Rare Earth Corridors is a welcome move. The continued focus on infrastructure development in Tier II and Tier III cities, coupled with a slew of measures to enhance credit access for MSMEs, provides a much-needed foundation for balanced and inclusive growth.

Equally notable are the forward-looking initiatives in the creative and digital economy, including the proposal to set up AVGC (Animation, Visual Effects, Gaming and Comics) Content Creator Labs in schools and colleges. Collectively, these measures offer a more tangible and diversified pathway towards the vision of Viksit Bharat.

From a legal and regulatory perspective, the Budget also signals an impending overhaul of the FEMA (Non-Debt Instruments) Rules, 2019, with the objective of making the foreign investment framework more user-friendly and contemporary.

Currently, NRIs and OCIs are permitted to acquire equity instruments of listed Indian companies on stock exchanges up to 5% of the total paid-up capital, with the aggregate holding of all NRIs/OCIs capped at 10%. The Budget proposes to enhance the individual limit from 5% to 10% and the aggregate limit from 10% to 24%.

More significantly, it appears that this investment route—hitherto restricted to NRIs and OCIs—is proposed to be extended to any individual who is a person resident outside India. This move is clearly aimed at broad-basing foreign investment, simplifying access for individual non-resident investors, and further improving the ease of investing in India.

Budget 2026 reflects a calibrated blend of ambition and pragmatism—expanding India's growth narrative beyond conventional sectors while steadily refining the legal and regulatory architecture to attract global capital.

Finally, below are the key takeaways from an Indian direct tax perspective. For a more detailed reading you can refer to the annex.

Key Tax Takeaways at a Glance

Buyback Taxation Revamped

Share buyback consideration to be taxed as capital gains instead of dividend income, significantly improving tax efficiency for non-promoter shareholders and likely reviving buyback activity and facilitating investor exits.

Higher Transaction Costs in Derivatives

Securities Transaction Tax (STT) increased on options and futures, impacting derivatives traders and increasing overall trading costs.

MAT Framework Restructured

MAT rate reduced to 14%, MAT to become final tax, and restricted MAT credit set-off permitted only under the new tax regime, incentivising a shift to the new regime.

Simplified Compliance Timelines

Rationalised return filing due dates, extended timeline for revised returns, and greater flexibility in filing updated returns, addressing long-standing practical difficulties.

Reduced Penalty Exposure

Penalties to be imposed within assessment orders, procedural defaults converted into fixed, capped fees, and expanded powers of the Dispute Resolution Committee to grant relief.

Relief Under Black Money Act

Introduction of a ₹20 lakh monetary threshold for prosecution in cases of undisclosed foreign assets (other than immovable property), with retrospective application from 1 October 2024.

Voluntary Disclosure Window

Introduction of the Foreign Assets of Small Taxpayers Disclosure Scheme, 2026, a time-bound voluntary disclosure mechanism enabling small taxpayers to regularise legacy or inadvertent non-disclosures of foreign assets or income upon payment of a prescribed tax or fee, with limited immunity from penalty and prosecution.

TCS Rationalisation Under LRS

Reduction in the Tax Collected at Source (TCS) rates applicable on remittances under the Liberalised Remittance Scheme (LRS), easing cash-flow pressures for individuals remitting funds overseas.

Targeted Tax Holidays

Long-term tax holidays introduced for data centre services and electronics manufacturing, aimed at promoting digital infrastructure, AI ecosystems, and domestic manufacturing.

Clarity on TDS

Supply of manpower services expressly covered as contractual work for TDS purposes, reducing classification disputes and litigation.

Buyback of Shares

Current Treatment

Under the current law, the consideration received by a shareholder on the buy-back of shares by a company is treated as dividend income and taxed accordingly. The cost of acquisition of the shares extinguished on buy-back is considered as a capital loss, which is available for set-off under the provisions of the ITA 2025.

Proposed Changes

The Finance Bill proposes to rationalise the provisions pertaining to the buy-back of shares. The consideration received on buy-back is proposed to be taxable as capital gains instead of being treated as dividend income.

The rate for non-promoters is proposed to be limited to the capital gains tax rate under the ITA 2025, i.e., 12.5% in the case of long-term capital gains and 20% in the case of short-term capital gains. All rates mentioned above are exclusive of surcharge and cess.

However, the capital gains tax rate for individual promoters and domestic companies which are promoters is proposed to be 30% and 22%, respectively, irrespective of the period of holding.

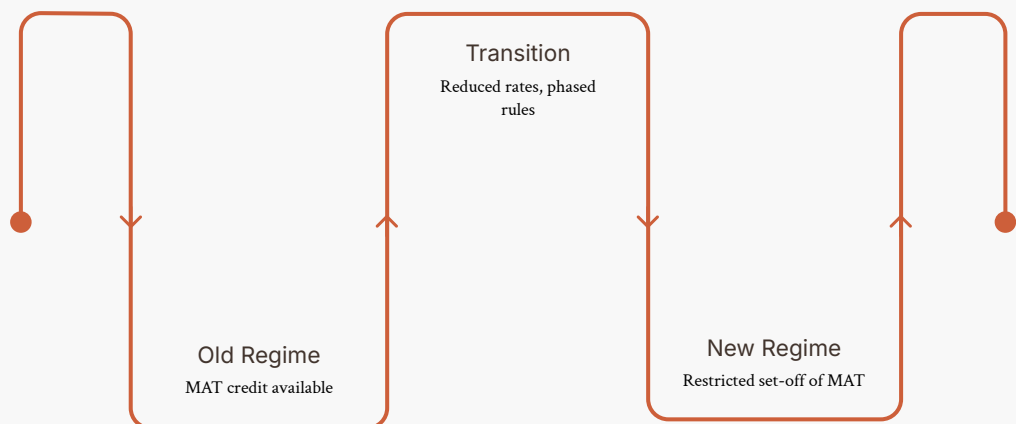
Impact Analysis

Under the existing regime, buy-back has been tax-inefficient and therefore unattractive for shareholders due to the high tax treatment.

The proposed amendments are a welcome move for non-promoters, who should now be subject to a lower tax rate, and are expected to pave the way for increased buy-back activity especially as a form of exit to investors.

This reform represents a significant shift in how corporate capital returns are structured and taxed in India, potentially making buybacks a more attractive alternative to dividends for companies seeking to return value to shareholders.

Minimum Alternate Tax (MAT): Structural Overhaul



The changes to the MAT framework represent a fundamental shift in India's corporate tax architecture, designed to incentivise companies to migrate from the old tax regime to the new tax regime.

Understanding MAT

MAT is payable where the MAT is higher than the income-tax payable on the company's total income computed under the normal provisions of the ITA 2025. MAT is charged on the book profit of the taxpayer at the rate of 15% for corporates, other than units located in an International Financial Services Centre.

Any excess amount paid over and above the regular tax as MAT is allowed as a credit, which can be carried forward for up to 15 years and set off in future years where the company's regular tax liability exceeds the MAT liability.

Proposed Reforms

The Finance Bill proposes that tax paid under the provisions of MAT shall be treated as final tax, and no new MAT credit shall be allowed. The rate of MAT is proposed to be reduced from 15% to 14% of book profit.

Set-off of MAT credit is proposed to be allowed only under the new tax regime for domestic companies, to the extent of 25% of the tax liability. In the case of foreign companies, set-off is proposed to be allowed to the extent of the difference between the tax on total income and the MAT liability for the tax year in which the normal tax is more than MAT.



Cruise Ship Operators

Non-residents carrying on the business of operation of cruise ships exempted from MAT, provided they opt for presumptive taxation



Electronics Manufacturing

Non-residents providing services or technology for setting up electronics manufacturing facilities in India exempted from MAT, provided they opt for presumptive taxation

The exemption from MAT is a welcome move that should allow for more cruise ship operators to start operations in India and boost the electronics manufacturing ecosystem in India.

Tax Holiday for Data Centre Services: Boosting Digital Infrastructure

The Finance Bill proposes to provide a tax holiday to foreign companies in respect of income accruing or arising in India, or deemed to accrue or arise in India, from procuring data centre services from a specified data centre. In line with the objective of achieving Viksit Bharat by 2047, the tax holiday is proposed to be available up to the tax year ending 31 March 2047.

1

Data Centre Definition

Secure facilities and services utilising physical, electrical, cooling, information technology infrastructure and human resources located in India

2

Specified Data Centre

A data centre set up under an approved scheme notified by the Ministry of Electronics and Information Technology and owned and operated by an Indian company

3

Routing Requirement

Services provided to Indian users must be routed through an Indian reseller entity

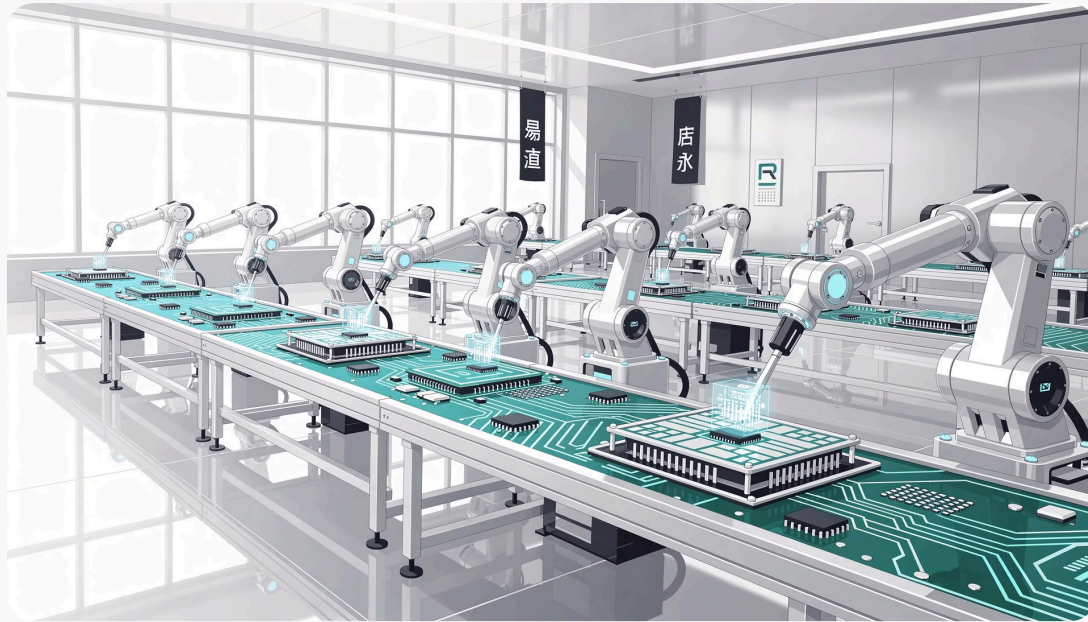
Strategic Impact

This proposal is expected to significantly boost investment in data centres and promote the development of artificial intelligence infrastructure in India. The extended timeline until 2047 provides long-term certainty for investors and aligns with India's digital transformation goals.

The requirement to route services through an Indian reseller entity ensures that the benefits of this tax incentive are captured within the domestic economy while facilitating technology transfer and skill development.

This reform positions India as an attractive destination for global data centre operations, supporting the country's ambitions to become a hub for digital services and AI-driven innovation.

Tax Holiday for Electronics Manufacturing: Promoting Domestic Production



Incentive Framework

The Finance Bill proposes to provide a tax holiday to non-residents in respect of income arising from the supply of capital goods, equipment or tooling to a contract manufacturer. The tax holiday is proposed to be available up to the tax year 2030–31.

Eligibility Conditions

The tax holiday is subject to the condition that the contract manufacturer is a company resident in India, located in a customs bonded area (being a warehouse referred to in section 65 of the Customs Act, 1962), and engaged in the manufacture of electronic goods on behalf of such foreign company for consideration.

01

Attract Foreign Capital Equipment Suppliers

Tax certainty encourages global suppliers to partner with Indian manufacturers.

02

Strengthen Contract Manufacturing Ecosystem

Incentivises establishment of sophisticated manufacturing facilities in customs bonded areas.

03

Boost Domestic Electronics Production

Reduces import dependency and strengthens India's position in global electronics supply chains.

04

Technology Transfer and Skill Development

Facilitates knowledge transfer and creates high-skilled manufacturing jobs.

This proposal is expected to promote domestic manufacturing of electronic goods and provide tax certainty in respect of the supply of capital goods by foreign companies. It complements India's broader Make in India initiative and supports the country's ambitions to become a major player in global electronics manufacturing.

Tax Deducted at Source: Clarity on Manpower Supply

The Finance Bill proposes to bring payments for supply of manpower services within the ambit of payments to contractors for tax deducted at source ("TDS") purposes and has expanded the definition of "work" to include the supply of manpower services.



The proposed amendment seeks to clarify the ambiguity that exists as to whether payment for supply of manpower services would fall under Section 393(1) of the ITA, 2025 Table serial number 6 (i) or (ii) which dealt with TDS in case of payments made to contractors, or (iii) which dealt with fees for professional and technical services.

Practical Implications

Consequently, payments for supply of manpower services would be subject to TDS as payments to contractors and not as fees for professional or technical services. The applicable rate of TDS has been set at 1% or 2%, depending on the payer and/or the payee.

This represents a significant reduction from the higher TDS rates that would have applied if such payments were treated as fees for professional or technical services, thereby reducing the cash flow impact on service providers.

Benefits of Clarification

- Eliminates classification disputes between taxpayers and tax authorities.
- Reduces litigation on the nature of manpower supply payments.
- Provides certainty on applicable TDS rates.
- Ensures consistency in tax treatment across similar transactions.
- Improves ease of compliance for both payers and service providers.

The proposed amendment is aimed at reducing disputes and ensuring consistency in the tax treatment of payments for supply of manpower services.

Liberalised Remittance Scheme: Reduced TCS Burden

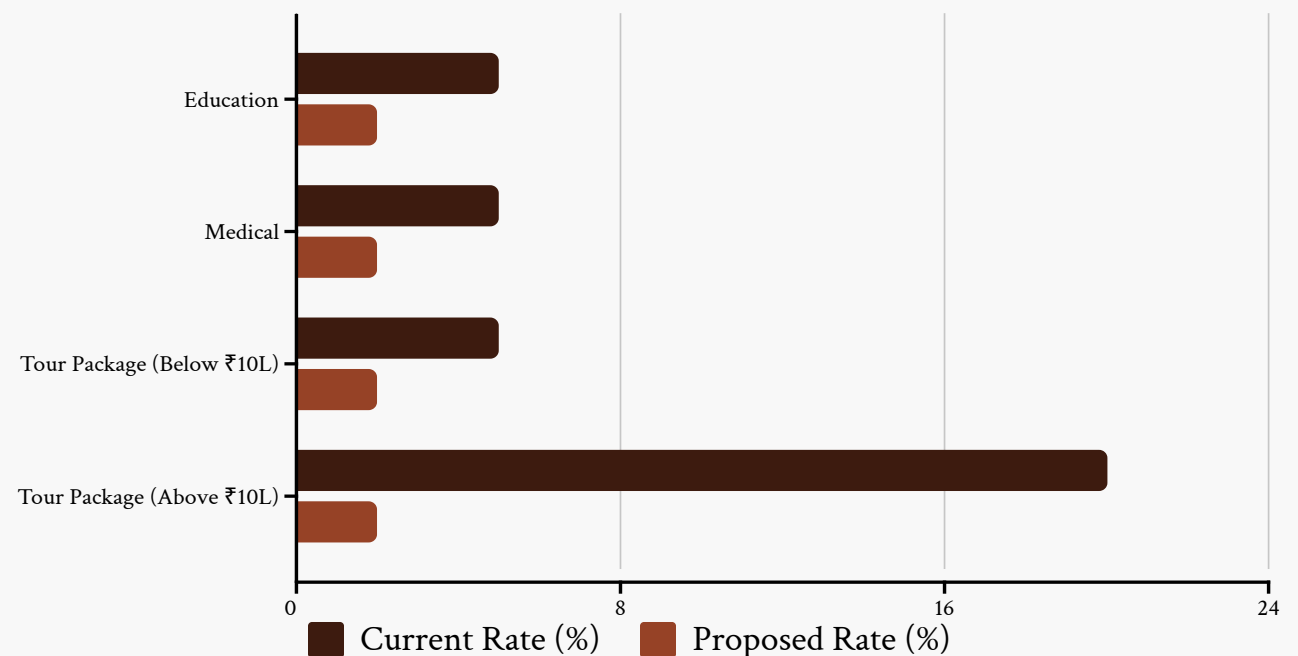
In a welcome move, the Finance Bill proposes measures to enhance liquidity when making payment under the Liberalised Remittance Scheme ("LRS"). These changes significantly reduce the upfront tax burden on individuals remitting funds overseas for legitimate purposes.

Why This Matters

The reduction in TCS rates represents a significant easing of the cash flow burden on individuals making overseas remittances.

The previous regime created substantial liquidity challenges, particularly for students and their families making education-related payments, and for individuals seeking medical treatment abroad.

By reducing these rates, the government has balanced the need for tax collection with the practical realities faced by genuine remitters, making it easier for Indians to access global opportunities in education, healthcare, and travel.



Education Remittances

For amounts more than INR 10,00,000 (Indian Rupees Ten Lakh) for education purposes, the TCS rate has been reduced from 5% to 2%, providing significant relief to students and their families.



Medical Treatment

Similarly, for medical treatment purposes exceeding INR 10,00,000, the TCS rate has been reduced from 5% to 2%, easing the financial burden during critical health situations.



Overseas Tour Packages

For remittance for overseas tour programme packages including travel, hotel stay, boarding, lodging and related expenses, the rate has been uniformly set at 2% irrespective of the amount, eliminating the previous tiered structure.

Rationalisation of Return Filing: Enhanced Flexibility

The Budget proposes a series of amendments with respect to the filing of returns of income, designed to simplify compliance and provide greater flexibility to taxpayers.

October 31

Companies, taxpayers whose accounts are required to be audited, and partners of firms whose accounts are subject to audit

1

2

August 31

Taxpayers having business income and partners of firms to whom audit does not apply



Extended Timeline for Revised Returns

The timeline for filing a revised return is proposed to be extended from 9 months to 12 months from the end of the relevant tax year.

Updated Returns for Loss Reduction

Further, the current law does not permit the filing of an updated return in cases where the taxpayer seeks to reduce the amount of loss claimed in the return of loss filed within the due date. The Budget proposes to allow filing of an updated return in such cases, thereby permitting taxpayers to reduce the amount of loss in the updated return.

These changes represent a significant improvement in the flexibility afforded to taxpayers in managing their compliance obligations and correcting inadvertent errors or omissions in their tax filings.

Rationalisation of Penalties: Reducing Litigation Burden

The Finance Bill seeks to rationalise the penalty and prosecution framework by converting certain penalties into fees and for imposition of penalty for under-reporting or misreporting of income within the assessment order itself, with the objective of reducing litigation, multiplicity of proceedings, and the compliance burden on taxpayers.

Integrated Assessment

The proposed changes remove the requirement for separate penalty proceedings, and penalties will now be imposed as part of the assessment order itself.



Deferred Interest

Interest in cases involving recovery of tax demand is proposed to be charged only after disposal of the appeal by the Commissioner of Income-tax (Appeals) or the Income-tax Appellate Tribunal.



DRC Relief Powers

The Dispute Resolution Committee (DRC) is empowered to waive or reduce penalties imposed within the assessment order.

Conversion of Penalties to Fixed Fees

Under the ITA, 2025, penalties for procedural non-compliances—such as failure to get accounts audited, failure to furnish accountant's reports for international or specified domestic transactions, and failure to file statements of financial transactions or reportable accounts—were discretionary, recurring (including daily penalties), and effectively uncapped, often resulting in avoidable litigation for technical delays.

The Finance Bill proposes to rationalise these penalties by replacing them with fixed, graded fees. Audit-related defaults and failures to furnish accountant's reports would attract one-time fees linked to the period of delay, while penalties for non-filing of statements of financial transactions are proposed to be converted into fees subject to an overall cap of INR 100,000 (Indian Rupees One lakh only).

Key Benefits

- Predictability in penalty exposure.
- Reduction in litigation volume.
- Simplified compliance framework.
- Elimination of multiplicity of proceedings.
- Enhanced certainty for taxpayers.

Black Money Act: Relief for Small Taxpayers

Current Prosecution Framework

Currently, the Black Money Act provides for criminal prosecution—including rigorous imprisonment and fine where a resident wilfully fails to file a return of income or wilfully omits to disclose foreign income or assets in the return.

This stringent framework has created significant anxiety among taxpayers, particularly for those with minor or inadvertent non-disclosures of foreign assets or income.



Introduction of Monetary Threshold

The Finance Bill introduces a monetary threshold where undisclosed foreign assets (other than immovable property) whose aggregate value does not exceed INR 20,00,000 (Indian Rupees Twenty Lacs only) shall not be subject to prosecution, thereby providing relief for minor and inadvertent non-disclosures.

As a welcome move, this relief is proposed to apply retrospectively from October 1, 2024.

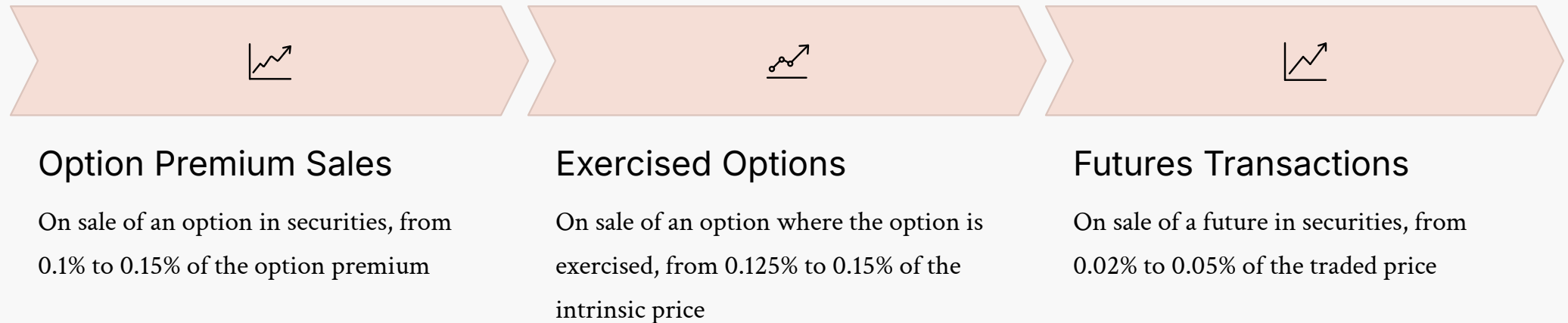
Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

The Finance Bill introduces a time-bound disclosure scheme for small taxpayers to voluntarily regularise legacy or inadvertent foreign asset or income non-disclosures (such as ESOPs, dormant foreign accounts, or overseas savings) on payment of a prescribed tax or fee based on the nature and source of acquisition.

The scheme provides limited immunity from penalty and prosecution under the Black Money Act, while excluding cases involving prosecution or proceeds of crime. This represents a pragmatic approach to addressing the genuine concerns of taxpayers who may have inadvertently failed to disclose foreign assets or income.

Securities Transaction Tax (STT): Increased Trading Costs

The Budget proposes to increase the rate of STT on the following transactions, marking a significant shift in the cost structure for derivatives market participants:



These changes represent a substantial increase in transaction costs for derivatives traders, particularly affecting high-frequency traders and institutional investors who actively participate in the options and futures markets. The most significant impact will be felt in futures trading, where the STT rate has more than doubled.

Any question / comments or feedback, please write to us as at:

contactpl@parakramlegal.com

ashish.sodhani@parakramlegal.com

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