

# UNION BUDGET



2026

Tax Analysis



## PREFACE

The Union Budget 2026–27 sets out the Government’s policy and fiscal roadmap for the year ahead, at a time when India continues to demonstrate resilience amid global economic uncertainty. Building on recent structural reforms, the Budget seeks to balance growth imperatives with fiscal consolidation, while advancing the long-term vision of *Viksit Bharat*.

The Budget focuses on strengthening domestic demand, boosting investment, and improving competitiveness across manufacturing, infrastructure, technology, and exports. Growth remains robust with stable fiscal parameters and strong public capex, while reforms aim to ease compliance and enhance taxpayer certainty.

From a taxation standpoint, the Budget introduces significant reforms across both direct and indirect taxes, including rationalization of tax structures, alignment with the newly enacted Income-tax Act, 2025, and measures to address long-standing interpretational and procedural challenges. These changes are expected to have a meaningful impact on corporate structuring, investment decisions, and capital market dynamics over the medium term.

Taken together, the Union Budget 2026–27 charts a decisive and forward-looking path towards *Viksit Bharat*, combining fiscal discipline with transformative reforms to unlock India’s economic potential. As stakeholders across industry and society, we look forward to engaging constructively in this journey and leveraging emerging opportunities for innovation, growth, and shared prosperity.

We trust that this publication provides valuable insights and perspective as stakeholders navigate the post-Budget landscape, and we welcome your feedback and observations

# DIRECT TAX PROPOSALS

## RETURN OF INCOME

- ❖ **No Change in the personal tax slab**
- ❖ **Extension of time limit for filing revised return**

The time limit for filing a revised return of income is proposed to be extended from 31 December to 31 March following the end of the relevant tax year, subject to payment of the prescribed fee. This amendment shall take effect from 1 March 2026 and shall apply from FY 2025-26 onwards..
- ❖ **Enabling filing of updated return in cases involving reduction of losses**

Currently, filing of an updated return is not permitted where the original return reflects a loss. It is proposed allows filing of an updated return in cases where the taxpayer seeks to reduce the quantum of loss as compared to the loss claimed in the original return of income. This amendment shall take effect from 1 March 2026.
- ❖ **Rationalizing of due dates for filing of return of income**

The due date to file return of income in case of non-audit business cases and trust is proposed to be extended from 31 July to 31 August from the end of relevant tax year. The proposed amendment shall be with effect from 1 March 2026, relevant for FY 2025-26 onwards.

## WITHHOLDING TAX / TDS / TCS PROVISIONS

### ❖ **Electronic procedure for lower or nil deduction certificates**

It is proposed to provide for electronic filing, verification, and issuance of certificates for deduction of tax at a lower rate or at nil rate, with a view to easing the compliance burden, particularly for small taxpayers.

### ❖ **Relaxation from requirement of TAN for TDS on purchase of immovable property from non-residents**

Under the existing provisions, where the seller is a resident, the buyer is not required to obtain a Tax Deduction and Collection Account Number (TAN) for compliance with the applicable tax deduction at source provisions. It is proposed to extend this relaxation to cases where the seller is a non-resident. This amendment is proposed to take effect from 1st October, 2026.

### ❖ **Tax deduction at source on supply of manpower**

It is proposed to clarify that the supply of manpower to a person, to work under his supervision, control, or direction, shall be treated as “work” for the purposes of tax deduction at source. Accordingly, such payments shall be subject to tax deduction at source at the rate of 1 per cent in the case of payments to individuals or Hindu undivided families, and 2 per cent in other cases.

### ❖ **No tax deduction at source on interest income of co-operative banks**

It is proposed to amend section 393(4) of the Income-tax Act, 2025 (corresponding to section 194A of the Income-tax Act, 1961) so as to provide that no tax shall be deducted at source on interest income credited or paid to a co-operative society engaged in banking, including a co-operative land mortgage bank.

## WITHHOLDING TAX / TDS / TCS PROVISIONS

- ❖ The Finance Bill, 2026 has proposed the following changes to rationalize TCS rates prescribed under section 394(1) of the ITA 2025 (corresponding to section 206C of the ITA 1961). The said changes are proposed to be effective from 1 April 2026.

Nature of transactions	Current rate	Proposed rate
Remittance under LRS for education other than mentioned above and for medical treatment exceeding INR 10,00,000	5%	2%
Sale of alcoholic liquor for human consumption, scrap and minerals (coal, lignite or iron ore)	1%	2%
Sale of tendu leaves	5%	2%
Purchase of overseas tour programme package up to INR 10,00,000 / more than INR 10,00,000 (Threshold removed)	5%/20%	2%

## ASSESSMENT / REASSESSMENT PROCEEDINGS

### ❖ **Clarification regarding jurisdiction for issuance of notice under sections 148 and 148A (ITA, 1961)**

It is proposed to clarify that the pre-assessment enquiry under section 148A or the issuance of notice under section 148 of the ITA, 1961 shall be undertaken by the jurisdictional Assessing Officer, and not by the National Faceless Assessment Centre (NFAC) or its assessment units. Upon the Assessing Officer forming a view that the case is fit for reassessment and issuing the requisite intimation to the assessee, the reassessment proceedings shall thereafter be conducted in a faceless manner through the NFAC. These amendments are proposed to operate retrospectively from 1 April 2021, with corresponding amendments to be incorporated in the ITA, 2025.

### ❖ **Validation of assessments notwithstanding defects relating to Document Identification Number (DIN)**

It is proposed to provide that an assessment or related proceeding shall not be rendered invalid merely on account of any mistake, defect, or omission relating to the Document Identification Number (DIN), provided that the assessment is otherwise traceable or referenced by a DIN in any manner. This amendment is proposed to have retrospective effect from 1 October 2019, with corresponding amendments in the ITA, 2025.

### ❖ **Block period in the case of other persons**

Section 295 of the ITA, 2025 (corresponding to section 158BD of the ITA 1961) provides for assessment in the case of a person other than the specified person. It is proposed to amend the said section so as to limit the block period in the case of such other person to a single tax year. Earlier, the block period applicable to the specified person and such other person was the same.

## ASSESSMENT / REASSESSMENT PROCEEDINGS

### ❖ Rationalization of time limit for completion of block assessment

Section 296 of the ITA, 2025 (corresponding to section 158BE of the ITA, 1961) prescribes the time limit for completion of block assessment. It is proposed to amend the said section so as to reckon the time limit with reference to the date of initiation of search or requisition, instead of the date of the last authorization for search or requisition. It is further proposed to extend the time limit for completion of assessment or reassessment from twelve months to eighteen months. Accordingly, the assessment or reassessment shall be required to be completed within eighteen months from the date of initiation of search or requisition.

### ❖ Reduction of pre-deposit of demand under dispute from 20% to 10%

In the budget speech, it is announced that amount of pre-payment shall be reduced from 20% to 10% and will continue to be calculated only on core tax demand.

### ❖ Permitting filing of updated return after initiation of reassessment proceedings

Under the existing framework, filing of an updated return is not permitted once assessment or reassessment proceedings have commenced. It is proposed to allow filing of an updated return after issuance of a reassessment notice, within the time limit specified in such notice. In such cases, the additional income-tax payable shall be further increased by 10% of the aggregate tax and interest. This amendment shall take effect from 1 March 2026.

## PENALTY / PROSECUTION

### ❖ Expansion of scope of immunity from penalty and prosecution

It is proposed to amend section 440 of the ITA , 2025 (corresponding to section 270AA of the ITA , 1961) to extend the benefit of immunity from penalty and prosecution to cases involving mis-reporting of income, in addition to under-reporting of income. Such immunity shall be available subject to the taxpayer paying additional income-tax equal to 100% /120% of the tax payable on the mis-reported income, in lieu of the applicable penalty.

### ❖ Introduction of penalty provisions for non-compliance in reporting of crypto-asset transactions

Section 509 of the ITA, 2025 (corresponding to section 285BAA of the ITA, 1961) mandates reporting entities to furnish prescribed information in respect of crypto-asset transactions. It is proposed to amend section 446 of the ITA , 2025 (corresponding to section 271B of the ITA, 1961) to introduce the following penalties

- a penalty of ₹200 per day for failure to furnish the prescribed statement; and
- a penalty of ₹50,000 for furnishing inaccurate particulars in such statement.

### ❖ Imposition of Penalty Along with Assessment Order and Rationalization of Interest Levy

To streamline proceedings and reduce taxpayer uncertainty, it is proposed that penalty for under-reporting or misreporting of income shall be imposed along with the assessment order, instead of through separate proceedings. Further, interest on delayed payment of tax demand shall be leviable only after the passing of an appellate order by the CIT(A) or ITAT (in cases of appeal against DRP), as applicable, replacing the earlier trigger of 30 days from service of demand notice. The amendment shall be effective from 1 April 2027.

# PENALTY / PROSECUTION

## ❖ Rationalization of penalty into fees

Earlier sections of ITA 2025	Proposed sections of ITA 2025	Nature of non-compliance	Penalties (Before Amendment)	Penalties (After Amendment)
446 [271B of ITA 1961]	428(c)	Failure to get accounts audited	0.5% of total sales / turnover or gross receipts or INR 1,50,000, whichever is less	INR 75,000 – INR 1,50,000, depending on the period of delay
454(1) [271FA of ITA 1961]	427(3)	Furnish statement of financial transactions or reportable account	INR 500 / Rs. 1,000 per day	INR 500 / INR 1,000 per day
447 [271BA of ITA 1961]	428(4)	Furnish accountant's report in Form 3CEB	INR 1,00,000	INR 50,000 – INR 1,00,000, depending on the period of delay

## PENALTY / PROSECUTION

### ❖ Relaxation of conditions for prosecution under the Black Money Act

Sections 49 and 50 of the Black Money Act provide for prosecution, including rigorous imprisonment and fine, in cases where a resident wilfully fails to furnish a return of income or wilfully omits to disclose foreign income or assets in the return of income. It is proposed to provide that the said provisions shall not apply in respect of foreign assets, other than immovable property, where the aggregate value of such assets does not exceed INR 20 lakh. These amendments are proposed to be retrospectively applicable with effect from 1st October, 2024

### ❖ Increase in maximum amount of penalty

Section 466 of the ITA, 2025 (corresponding to section 272AA of the ITA, 1961) provides for levy of penalty for failure to comply with the provisions relating to the power to collect information. It is proposed to amend the said section so as to enhance the maximum amount of penalty from ₹1,000 to ₹25,000, with a view to ensuring adequate deterrence and promoting voluntary compliance.

### ❖ Rationalisation of prosecution provisions

It is proposed to rationalize the prosecution framework by decriminalizing certain offences and aligning the nature and quantum of punishment so as to make them proportionate to the gravity of the offence.

# BUYBACK TAX

- ❖ **Rationalization of taxation of buyback of shares - Shift from Dividend Taxation to Capital Gains Regime for Buy-backs**  
Under the proposed provisions of the Income-tax Act, 2025, consideration received on buy-back of shares is proposed to be taxed as capital gains, replacing the earlier treatment as dividend income.

- In the case of promoter shareholders, the applicable tax rates shall be as under:

Category	Nature of gains	Domestic company	Others
Listed shares	STCG	20% + 2% = 22%	20% + 10% = 30%
Other securities	STCG	Applicable rates	
Listed/Unlisted Securities	LTCG	12.50 + 9.5% = 22%	12.50% + 17.50% = 30%

The above tax rates are excluding surcharge and health & education cess. Tax rates for non-promoter shareholders shall be same as their applicable capital gains tax rates

- **Meaning of Promoter**
  - For listed entities : As per SEBI (Buy-back of Securities) Regulations 2018
  - For unlisted entities : As per section 2(69) of the Companies Act, 2013; or person who holds directly or indirectly, more than 10% of shareholding in the company.

## FOREIGN ASSETS OF SMALL TAXPAYERS

- ❖ Persistent non-compliance has been observed in cases of legacy or inadvertent non-disclosures, particularly among small taxpayers, including low-value foreign financial assets and overseas employment-related benefits, as also evidenced by information received under the Automatic Exchange of Information framework. To facilitate voluntary compliance and resolution of such legacy cases, it is proposed to introduce a time-bound declaration scheme for foreign assets and foreign-sourced income, with payment of applicable tax or fee and limited immunity from penalty and prosecution under the Black Money Act.

Categories	Eligibility	Amount payable
Undisclosed foreign assets or income	Aggregate undisclosed income and asset value up to INR 10 Million	Aggregate of: (i) Tax - 30% * (undisclosed foreign income and FMV as on 31 March 2026 of undisclosed foreign asset); and (ii) Penalty - 100% of tax as above
Disclosed foreign income but failure to report foreign assets	Aggregate undisclosed asset up to INR 50 Million	Fee of INR 1,00,000

- ❖ The Scheme is not applicable for the pending proceedings under PMLA or concluded proceedings under Black Money Act.

## NON-PROFIT ORGANIZATIONS (NPO)

### ❖ **Insertion of provisions relating to merger of non-profit organizations**

The ITA, 2025 does not contain provisions governing the merger of registered NPOs, as were earlier provided under section 12AC of the ITA, 1961. It is therefore proposed to insert a new section 354A in the ITA, 2025 to provide for the merger of registered NPOs.

### ❖ **Amendment relating to specified violations by registered non-profit organizations**

Section 351 of the ITA, 2025 (corresponding to section 12AB of the ITA, 1961) inter alia specifies certain circumstances which constitute a “specified violation” by a registered non-profit organization (NPO). Such specified violations presently include the carrying on of commercial activities by an NPO engaged in the advancement of any other object of general public utility. As the inclusion of such commercial activities as a specified violation may result in cancellation of registration, which was not the intent of the corresponding provisions under the ITA, 1961, it is proposed to amend section 351 of the ITA, 2025 so as to remove the reference to such violation and align the provision with the ITA, 1961.

### ❖ **Amendment to provide for filing of belated return by NPO –**

In order to enable furnishing of belated return by registered NPO as was there in the ITA, 1961, it is proposed to amend the provisions of section 349 of the ITA, 2025 (corresponding to section 12A of the ITA, 1961) to provide reference of section 263(4) of the ITA, 2025 [corresponding to section 139(4) of the ITA, 1961] in the said section.

# GENERAL

## ❖ Attracting global business and investment

In order to attract global business and investment, it is proposed to provide the following exemptions

Income not to be included in the total income	Eligible persons	Conditions
Any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a resident company	A foreign company, who is providing capital goods, equipment or tooling to the contract manufacturer for use in electronic manufacturing in India	<ul style="list-style-type: none"> <li>(a) Ownership of such capital goods, equipment or tooling remains with the foreign company;</li> <li>(b) Such capital goods, equipment or tooling is under the control and direction of the contract manufacturer;</li> <li>(c) The contract manufacturer is located in a custom bonded area;</li> <li>(d) The contract manufacturer produces electronic goods on behalf of the foreign company for a consideration;</li> <li>(e) Such exemption shall be available up to the tax year 2030-2031</li> </ul>
Any income which accrues or arises outside India and is not deemed to accrue or arise in India.	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 in India in connection with any scheme as may be notified by the Central Government.	<ul style="list-style-type: none"> <li>(a) Such individual, during the relevant tax year renders any service in India in connection with any scheme as may be notified by the Central Government;</li> <li>(b) Such exemption shall not be available beyond a period of five consecutive tax years commencing from the first tax year during which he visits India in connection with such scheme; and</li> <li>(c) Such other conditions, as may be prescribed.</li> </ul>

## GENERAL

### ❖ Attracting global business and investment (Continued)

In order to attract global business and investment, it is proposed to provide the following exemptions

Income not to be included in the total income	Eligible persons	Conditions
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.	A foreign company	(a) Such foreign company is notified by the Central Government in this behalf; (b) Such foreign company does not own or operate any of the physical infrastructure or any resources of the specified data centre; (c) All sales by such foreign company to users located in India are made through a reseller entity being an Indian company; (d) Such foreign company maintains and furnishes such information in such form and manner, as may be prescribed; and (e) Such exemption shall be available up to tax year ending on the 31 March 2047.

## GENERAL

### ❖ **Employees' Contribution to Welfare Funds – Alignment of Due Date**

Section 29(e)(i) of the ITA, 2025 (corresponding to section 36(1)(va) of the ITA, 1961) allows deduction of employees' contribution to welfare funds, provided such contribution is remitted to the relevant fund within the due date prescribed under the applicable welfare legislation. It is proposed to amend this provision to clarify that the relevant due date for such payment shall be the due date for furnishing the return of income under section 263(1) of the ITA, 2025 (corresponding to section 139(1) of the ITA, 1961).

### ❖ **Non-allowability of interest as a deduction against Dividend income**

As per section 93 of the ITA, 2025 (corresponding to section 57 of the ITA, 1961), deduction of interest expenditure was allowed, subject to a ceiling of 20% of the gross dividend or mutual fund income. It is now proposed to amend section 93(2) to completely disallow any deduction of interest expenditure incurred for earning dividend income or income from units of mutual funds.

### ❖ **Interest on motor vehicle compensation exempt**

It is proposed to exempt from income-tax the interest component of compensation awarded by the Motor Accident Claims Tribunal to an individual or their legal heir on account of death, permanent disability, or bodily injury under the Motor Vehicles Act, 1988. Correspondingly, it is also proposed to exempt such interest income from TDS.

## GENERAL

### ❖ **Extension of Deduction Period and Rationalization of Tax Rate for IFSC Units–**

Section 147 of the ITA , 2025 (corresponding to section 80LA of the ITA , 1961) currently provides a deduction of 100% of specified income to units located in an International Financial Services Centre (IFSC) and Offshore Banking Units (OBUs) for 10 consecutive years—out of 15 years in the case of IFSC units, and 10 years in the case of OBUs. To enhance the global competitiveness of IFSCs, it is proposed to extend the deduction period to 20 consecutive years out of 25 years for IFSC units and to 20 consecutive years for OBUs. Further, it is proposed that, upon expiry of the deduction period, the business income of such units shall be taxed at a concessional rate of 15%.

### ❖ **MAT Provisions**

- With a view to encourage taxpayers to migrate to the new tax regime, wide ranging changes are proposed:
  - Domestic companies opting for concessional tax regime for a tax year 2026-27 and onwards shall be allowed to set-off MAT credit available as on 31 March 2026 to the extent of 25% of the tax payable for that tax year. The remaining tax credit shall be allowed to be carried forward to subsequent tax years and shall be eligible for set-off up to 15 tax years from the tax year immediately succeeding the tax year in which the credit became allowable.
  - The MAT rate for domestic companies not opting for concessional tax regime has been reduced to 14% (effective MAT rate = 16.3072%) from earlier 15% (effective MAT rate = 17.472%) from tax year 2026-27 and onwards. Further, tax paid under MAT provisions shall be considered as final tax and no resultant MAT credit shall be allowed for carry forward and set-off in subsequent years

# TRANSFER PRICING

## ❖ **Amendment relating to giving effect to Advance Pricing Agreements (APAs)**

Section 168(1) of the ITA, 2025 (corresponding to section 92CC of the ITA, 1961) presently permits only the person who has entered into an Advance Pricing Agreement (APA) to furnish a modified return of income. It is now proposed to extend this facility such that, where an APA is entered into on or after 1 April 2026, both the person entering into the APA and any associated enterprise (AE) may file a return of income or a modified return, as the case may be, in conformity with the terms of the APA. Such return or modified return is required to be furnished within three months from the end of the month in which the APA is executed.

## ❖ **Clarifying time-limit for completion of TP assessment –**

It is clarified that the proceedings before the DRP under section 144C will have a separate timeline of 9 months in addition to the timelines stipulated for regular assessment for TP and non-residents.

## ❖ **Rationalization of Safe Harbour Rules (As per Budget Speech)**

### Information Technology Sector

- All software development services, Information Technology Enabled Services (ITeS), Knowledge Processing Outsourcing (KPO), software development related contract R&D services to be treated as a single category Information Technology Services ('IT') for applying safe harbour

# TRANSFER PRICING

## Information Technology Sector (Continued)

- Uniform safe harbour rate of 15.5% proposed to be applied to such IT category and eligibility threshold proposed to be substantially enhanced from operating revenue of INR 3,00,00,00,000 to INR 20,00,00,00,000.
- Safe Harbour applications to be processed through an automated process and can be applied for up to 5 years at taxpayer's choice.

## Advance Pricing Agreement

- Unilateral APA processing to be fast-tracked for IT service providers by concluding the UAPA within 2 years which can be extended by maximum 6 months at taxpayer's request

# INDIRECT TAX PROPOSALS

# GOODS AND SERVICES TAX

## GST – KEY LEGISLATIVE CHANGES – VALUATION

Following amendments are proposed to be made effective under CGST Act , 2017 from the date to be notified, unless otherwise specified:

- ❖ Section 15(3)(b) is being amended to allow post-sale discounts without a prior agreement, subject to issuance of a credit note under Section 34 and reversal of input tax credit(ITC) by the recipient.

**Comments :** This amendment is based on the recommendations provided in the 56<sup>th</sup> GST Council Meeting. With the proposed amendment through the Finance Bill, 2026, it is now intended to remove the condition requiring a prior agreement with the customer for reversal of post-sale discounts. Further, it seeks to permit the passing of benefit where a credit note has been issued by the supplier, provided that the recipient has made the corresponding reversal of ITC.

It is pertinent to note that Section 34 was earlier amended through the Finance Act, 2025, wherein corresponding reversal of ITC was prescribed for the purpose of reduction of tax liability of the supplier in respect of the credit note. Accordingly, the proposed amendment to Section 15(3)(b) aligns with Section 34, insofar as it requires proportionate reversal of ITC by the recipient against the credit note. However, since the Invoice Management System (IMS) functionality is still not mandatory, there remains a risk of compliance challenges under Section 34, particularly due to the absence of an effective mechanism enabling suppliers to monitor or verify such ITC reversals by recipients.

- ❖ Similarly, Section 34 is being correspondingly being amended to include reference of substituted Section 15(3)(b).

## GST – KEY LEGISLATIVE CHANGES - REFUNDS

Following amendments are proposed to be made effective under CGST Act , 2017 from the date to be notified, unless otherwise specified:

- ❖ Section 54(6) is being amended to include refund on inverted duty structure to be allowed on provisional basis being 90% of the total refund claimed subject to certain conditions as prescribed.

**Comments :** This amendment is based on the recommendations provided in the 56<sup>th</sup> GST Council Meeting. The above amendment is a welcome move since such benefit was earlier only provided in case of export of goods or services, or both made by a tax payer, however with the GST Rate rationalization made by the Government w.e.f September 2025, several industries have now fallen in Inverted Duty Structure, and grant of refund on provisional basis shall impact their working capital requirements and shall result in ease of business.

## GST – KEY LEGISLATIVE CHANGES – PLACE OF SUPPLY

Following amendments are proposed to be made effective under IGST Act , 2017 from the date to be notified, unless otherwise specified:

- ❖ Section 13(8)(b) which provides for place of supply in case of intermediary services wherein either service recipient or service provider is not located within India has been proposed to be omitted.

**Comments :** Prior to such omission, the place of supply in case of intermediary services ,wherein either the service recipient or the service provider was outside India, was the location of supplier of service, resulting in tax implications when the service was being consumed abroad, however with such omission, the place of supply going forward shall be dealt with residuary Section 13(2), i.e. the place of supply shall be the location of the recipient resulting in such supply to be considered as export of services, provided other conditions are fulfilled.

This amendment is based on the recommendations provided in the 56<sup>th</sup> GST Council Meeting. The above amendment is also in line with the Supreme Court rulings in case of Union of India & Ors. .vs.- KC Overseas Education Pvt and Commissioner of DGST v. Global Opportunities Pvt. Ltd. [2025:DHC:8798 – DB]; Commissioner of Delhi Goods And Service Tax DGST Delhi Versus Global Opportunities [2026 (2) TMI 112 - SC].

## GST – KEY LEGISLATIVE CHANGES – OTHERS

Following amendments are proposed to be made effective under CGST Act , 2017 from the date to be notified, unless otherwise specified:

- ❖ Section 56(14) is being amended to remove the threshold limit for sanction of refund claims in case of goods exported out of India with payment of tax. Earlier tax payers were not allowed to take refund of less than INR 1000, however now such restriction has been done away with.
- ❖ A new section (1A) is being inserted in Section 101A of the CGST Act, 2017 to provide that the Central Government may, pending the constitution of the National Appellate Authority for Advance Rulings(NAAAR), empower an existing Authority, for hearing appeals under section 101B of the CGST Act, 2017. The “existing Authority” can also include a Tribunal  
[To be inserted with effect from 01.04.2026]

### Comments:

The National Appellate Authority for Advance Ruling (NAAAR) was introduced through the Finance Act, 2019 to hear appeals arising from conflicting advance rulings issued by the Appellate Authorities of two or more States and/or Union Territories. The continued delay in operationalizing NAAAR has led to legal and procedural bottlenecks, as conflicting rulings across jurisdictions cannot be resolved through a centralized mechanism. In the absence of a uniform appellate forum, taxpayers are compelled to approach High Courts, increasing litigation and compliance burden while undermining tax certainty and consistency.

# CUSTOMS

HELPING YOU THRIVE IN A CHANGING WORLD

## CUSTOMS - KEY LEGISLATIVE CHANGES

Following amendments are being proposed in Customs Act, 1962 (*Changes to be effective from the date when Finance Bill receives the assent of the President*)

- ❖ Sub-section (2) of Section 1 of the Customs Act, 1962, is proposed to be amended to extend the jurisdiction of the Customs Act to Indian-flagged fishing vessels operating beyond India's territorial waters for fishing and related activities.
- ❖ Section 2 of the Customs Act is being amended to include a new sub-section 28A, defining "Indian-flagged fishing vessel" to explicitly identify vessels to be used for fishing in the seas and entitled to fly the flag of India.
- ❖ Section 28(6)(i) is being amended to provide that any penalty paid under sub-section (5) will now be deemed as a charge for non-payment of duty if determined under sub-section (6).

### Comments:

Section 28(5) of the Customs Act permits voluntary payment of differential duty along with applicable interest and a reduced penalty of 15%, where such payment is made within 30 days of receipt of a show cause notice. Upon payment of differential duty, interest, and the said penalty, proceedings are deemed to be concluded under Section 28(6)(i). The above amendment would allow taxpayers to settle cases conclusively through timely payment, without exposure to further adverse consequences under any other law or regulation.

## CUSTOMS - KEY LEGISLATIVE CHANGES

Following amendments are being proposed in Customs Act, 1962 (*Changes to be effective from the date when Finance Bill receives the assent of the President*)

- ❖ Sub-section (2) of Section 28J is being amended to provide that an advance ruling remains valid for 5 years or until a change in law or facts occurs, whichever is earlier.

### Comments:

Presently, advance rulings are valid for a period of three years or till there is a change in law or facts on the basis of which the advance ruling has been pronounced. With the above amendment, advance rulings can be now extended upto five years including present advance rulings [extendable upon request after the Finance Bill 2026 receives presidential assent].

- ❖ New Section 56A is proposed to be inserted to cover:
  - Special customs provisions for Indian-flagged fishing vessels operating beyond territorial waters.
  - Fish harvested beyond territorial waters may be imported into India duty-free.
  - Fish landed at foreign ports is treated as export of goods under rules.
  - Regulations which may prescribe the form, declaration, custody,

## CUSTOMS - KEY LEGISLATIVE CHANGES

Following amendments are being proposed in Customs Act, 1962 (*Changes to be effective from the date when Finance Bill receives the assent of the President*)

- ❖ Section 67 is being substituted to allow the owner of warehoused goods to transfer them between warehouses without prior permission of customs officers, subject to prescribed conditions.
- ❖ Section 84(b) is being amended to further empower CBIC to make regulations regarding “custody” of such goods imported/exported by post or courier. Accordingly, the word “examination” in clause (b) has been substituted with “examination, custody”.

## CUSTOMS – NON-TARIFF CHANGES

### **Modernization of new Passenger Baggage Rules & Regulations**

- ❖ Government has introduced new Customs Baggage (Declaration and Processing) Regulations, 2026 (2026 Regulations) vide Notification No. 15/2026 dated February 01, 2026 with a view to consolidate and modernize India's baggage laws which has superseded Passenger's Baggage (Levy of Fees) Regulations (1966), the Baggage (Transit to Customs Stations) Regulations (1967), and the Customs Baggage Declaration Regulations (2013).
  
- Key new regulations are as under:
  - Mandatory electronic declaration of dutiable/prohibited goods through Atithi App / ICEGATE, to be filed before entering Green Channel; declarations allowed up to 3 days in advance (accompanied & unaccompanied baggage).
  - Regulations now apply to passengers entering and leaving India; Green Channel / Red Channel formally defined with statutory recognition.
  - System shifts to risk-based verification; 5 standard forms (CBD-I to CBD-V) introduced replacing earlier single form.
  - Penalties prescribed under regulations; detention/unclaimed baggage period extendable up to 6 months with Commissioner approval; records to be retained 5 years.
  - Mandatory electronic declaration of dutiable/prohibited goods through the Atithi app/ICEGATE, with filing permitted up to 3 days prior to arrival (for accompanied and unaccompanied baggage).
  
- ❖ The Government has also replaced the Baggage Rules, 2016 with the Baggage Rules, 2026, revising duty-free allowances and procedures. Duty-free allowance of personal articles has been revised to Rs. 75,000 from Rs. 50,000 for Residents. Notably, jewellery is now included within "personal effects" with a specific definition.

## CUSTOMS – OTHERS

- ❖ Notification No. 36/2024-Customs (23.07.2024) granted BCD and SWS exemption to 55 groups of critical minerals; now being rationalized for simplification.
- ❖ 22 redundant entries omitted w.e.f. 02.02.2026 and 29 entries omitted w.e.f. 01.05.2026 by shifting the effective rates into the Customs Tariff.
- ❖ Deferred duty payment is being made monthly from the existing 15 days and a new class of 'Eligible Manufacturer Importers' is being created. This is being done by amending the existing Deferred Payment of Import Duty Rules, 2016.
- ❖ Amendments proposed in relation to Notification No. 45/2025-Customs dated 24.10.2025 ;
  - 102 exemptions/concessional rates are being extended upto March 31, 2028 (e.g., pharma reference standards, ATM parts, LED lights, precious stones, etc.).
  - 22 exemptions/concessional rates are being lapsed on their end dates of March 31, 2026 (e.g., video game parts, naphtha for fertiliser manufacture, etc.).
  - New prescription of sunset clause on certain exemptions/ concessional rates up to March 31, 2027 (on goods such as gold/ silver dore bars) or March 31, 2028 (on works of art and antiques intended for public exhibition).
  - Discontinuation of specific exemptions w.e.f. 02.02.2026 (e.g., coffee roasting machines, zoo animals/birds, ammonium phosphate for complex fertilisers, CD-ROMs, etc.)

# CHANGES IN CUSTOMS DUTY RATES

Changes in tariff rates to be effective from February 2, 2026 unless otherwise specified :

Chapter / Tariff Heading / Tariff Item	Description of Goods	Old rate	New rate	Impact
6601 91 00, 6601 99 00	Umbrellas (other than garden umbrellas)	20%	20% or Rs. 60 per piece, whichever is higher	
6603 20 00, 6603 90 10, 6603 90 90	Parts, trimmings and accessories of articles of heading 6601 to 6602	10%	10% or Rs. 25 per kg., whichever is higher	
9804	All dutiable goods, imported for personal use	20%	10%**	
2008 19 21, 2008 19 22, 2008 19 29, 2008 19 91	Makhana, other roasted nuts and seeds	150%	30%*	
2008 19 92	Other nuts, otherwise prepared or preserved	150%	30%*	
2309 90 31	Prawn and shrimps feed	15%	5% *	
2504	Natural graphite	5%	2.5%*	
2841 90 00	Sodium antimonate for use in manufacture of solar glass	7.5%	Nil	

# CHANGES IN CUSTOMS DUTY RATES

Changes in tariff rates to be effective from February 2, 2026 unless otherwise specified :

Chapter / Tariff Heading / Tariff Item	Description of Goods	Old rate	New rate	Impact
8401 30 00	All goods for generation of nuclear Power	7.5%	Nil	
8419 89 12, 8419 89 13, 8419 89 14, 8419 89 15, 8419 89 16, 8419 89 17, 8419 89 19	Reactors, columns or towers or chemical storage tanks	10%	7.5%*	
2827 35 00	Chlorides of Nickel	7.5%	Nil*	
2701, 2702, 2703	Coal; briquettes, ovoids and similar solid fuels manufactured from coal; Lignite, whether or not agglomerated, excluding jet; Peat (including peat litter), whether or not agglomerated	5%	2.5%*	
2709 00 10	Petroleum crude	5%	Re 1 per* Tonne	
7902	Zinc waste and scrap	5%	Nil*	
7802	Lead waste and scrap	5%	Nil*	

# CHANGES IN CUSTOMS DUTY RATES

changes in tariff rates to be effective from February 2, 2026 unless otherwise specified :

Chapter / Tariff Heading / Tariff Item	Description of Goods	Old rate	New rate	Impact
4906	Plans and drawings for architectural, engineering, industrial, commercial, topographical or similar purposes, being originals drawn by hand; hand-written texts; photographic reproductions on sensitized paper and carbon copies of the foregoing	10%	Nil*	
2804 61 00	Silicon, containing by weight not less than 99.99% of silicon	5%	Nil *	
7202 60 00	Ferro-nickel	2.5%	Nil*	
2804 90 00	Selenium	5%	Nil*	
2805 30 00	Rare-earth metals, scandium and yttrium, whether or not intermixed or inter alloyed	5%	Nil *	
7402 00 10	Blister copper	5%	Nil*	
2811 22 00	Silicon dioxide	7.5%	2.5%*	
2816 40 00	Oxides, hydroxides and peroxides, of strontium or barium	7.5%	Nil*	
2822 00 10	Cobalt oxides	7.5%	Nil*	

# CHANGES IN CUSTOMS DUTY RATES

changes in tariff rates to be effective from February 2, 2026 unless otherwise specified :

Chapter / Tariff Heading / Tariff Item	Description of Goods	Old rate	New rate	Impact
2834 21 00	Nitrates of potassium	7.5%	Nil*	
2836 91 00	Lithium carbonates	7.5%	Nil*	
2836 92 00	Strontium carbonate	7.5%	Nil*	
2815 20 00	Potassium hydroxide	Nil	7.5%	
3102 30 00	Ammonium nitrate, whether or not in aqueous solution	10%	5%*	
3801	Artificial Graphite; colloidal or semi-colloidal graphite; preparations based on graphite or other carbon in form of pastes, blocks, plates or other semimanufactures	7.5%	2.5%*	
2834 21 00	Nitrates of potassium	7.5%	Nil*	
2836 91 00	Lithium carbonates	7.5%	Nil*	

\*\* Effective From 01.04.2026

\* Effective from 01.05.2026

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