

**An Overview
of
Direct Tax Proposals**



N D A & Associates



The Income Tax Act, 2025 has already been enacted and will come into effect from 01.04.2026. In view of this, there are no major amendments proposed in the Income Tax Act, 2025 except for some amendments required for smooth transition. No changes are proposed in the rates and slabs of taxes.

Most of the proposals are relating to amendment to Income Tax Act, 2025 (2025ACT) unless specifically referred to as 1961ACT (Income Tax Act, 1961).

DISCLAIMER

This analysis lists some of the direct tax and other proposals made by the Honourable Finance Minister in the Lok Sabha on February 01, 2026. While care has been taken in the preparation of this document it might contain errors for which we should not be held responsible. The information as given in this document provides summarised direct tax proposals and thus should not be relied upon for the purposes of decision making and expert advice should be sought.



PERSONAL INCOME TAX

- No change is proposed in the basic exemption limit (for tax payers opting for old regime) which will remain as under:

Category	Exemption Limit
Senior Citizen above age of 80 years	Rs. 5,00,000
Senior Citizen (in age group of 60-80 Years)	Rs. 3,00,000
General	Rs. 2,50,000

- No change is proposed in the rate of income tax for individual and HUF (tax payers opting for old regime) which will remain as under:

Income range	Rate of Tax
Up to respective exemption limit	NIL
Amount in excess of respective exemption limit up to Rs 5,00,000	5%
Rs 5,00,001 - Rs 10,00,000	20%
Above Rs 10,00,000	30%

- No changes in income slabs and tax rates are proposed for individuals and HUF under New Tax Regime, which will be as under:

Tax Rate (%)	Existing Income Range
NIL	0-4 Lakhs
5%	4-8 Lakhs
10%	8-12 Lakhs
15%	12-16 Lakhs
20%	16-20 Lakhs
25%	20-24 Lakhs
30%	Above 24 Lakhs

- The taxpayers opting new tax regime shall not pay any tax up to income of Rs. 12 lakhs on account of rebate of Rs. 60000.
- Standard deduction- No change proposed in the existing limit which will remain Rs 75,000 in case of new tax regime and Rs. 50,000 in case of old tax regime.



PERSONAL INCOME TAX (CONTD)

- No change is proposed in the rate of surcharge for individual and HUF which will remain as under:

In case of income including dividend income

Income Range	Rate of Surcharge (under both Regimes)
Rs 50,00,001 - Rs 1,00,00,000	10%
Above Rs 1,00,00,000	15%

In case of income excluding dividend or income

Income Range	Rate of Surcharge	
	Old Regime	New Regime
Rs 2,00,00,001 - Rs 5,00,00,000	25%	25%
Above Rs 5,00,00,000	37%	25%

- No change is proposed in Health & Education Cess which will be levied @ 4%.
- Tax under new tax regime will remain as default option. Accordingly, those who want to continue to opt for Old Tax Regime will have to opt for such option.

FIRMS & CO-OPRATIVE SOCIETIES

Firms

- No change is proposed in the tax rate for firms which will remain @ 30%. The surcharge also remains unchanged @ 12% in case the income exceeding Rs one crore.

Co-operative Societies

- No change is proposed in the tax rate of co-operative societies including those co-operative societies exercising option. No change is proposed in Alternate Minimum Tax and surcharge on co-operative societies.



COMPANIES

- ✚ No change is proposed in the tax rate for domestic and foreign companies. The proposed rate of tax is as under:

Category	Rate of Tax
Domestic Company exercising option under Section 200	22%
Domestic Company exercising option under Section 201	15%
Domestic company, not exercising abovementioned options and having total turnover or gross receipt up to Rs 400 crores for the tax year 2024-25	25%
Other Domestic Companies	30%
Foreign Companies	35%

- ✚ The surcharge is proposed to remain at the same level. In the case of domestic company whose income is chargeable to tax under Section 200 or 201, the rate of surcharge shall remain same at 10%. In other cases, it will remain same, as under:

Category	Total income between Rs 1 crore to Rs 10 crores	Total income exceeding Rs 10 crores
Domestic	7%	12%
Foreign	2%	5%

- ✚ No change is proposed in Health & Education Cess which will be levied @ 4%.

Changes are proposed in the taxation provision relating to MAT

- ✚ MAT rate is proposed to be reduced from 15% to 14%
- ✚ It is proposed to consider MAT as a final tax in the old regime and no new MAT credit will be allowed.
- ✚ It is proposed that, set-off of MAT credit which was allowed to be carried forward under 1961ACT, as on 31.03.2026, shall be allowed to the extent of 25% of the tax liability computed as per the other provisions of this Act for that tax year. The balance amount shall be allowed to be carried forward till the specified period.
- ✚ In the case of foreign companies, set off is proposed to be allowed to the extent of the difference between the tax on the total income and the minimum alternate tax, for the tax year in which normal tax is more than MAT.

TAX DEDUCTED / COLLECTED AT SOURCE

Revision of rates of Tax Collected at source

- It is proposed to revise the rates of tax collected at source w.e.f. 01.04.2026, as detailed below:

Sl. No	Nature of receipt	Current Rate	Proposed Rate
1.	Sale of alcoholic liquor	1%.	2%.
2.	Sale of tendu leaves.	5%.	2%.
3.	Sale of scrap.	1%.	2%.
4.	Sale of minerals, being coal or lignite or iron ore.	1%.	2%.
5.	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding Rs 10 lakhs	(a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.	(a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.
6.	Sale of “overseas tour programme package” including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure.	(a) 5% of amount or aggregate of amounts up to Rs 10 lakhs; 20% of amount or aggregate of amounts exceeding Rs 10 lakhs	2%

- Supply of manpower to a person to work under his supervision, control or direction is proposed to be included in the definition of “Work” for the purpose of deduction of tax at source. Thus, supply of manpower will not be considered as fees for professional services etc.
- Presently, where seller of the immovable property is a non-resident, the buyer is required to obtain TAN to deduct tax at source. It is proposed that resident individual or Hindu undivided family, is not required to obtain TAN to deduct tax at source where seller of the immovable property is a non-resident.



RETURN OF INCOME

Due Date of filing of ITR as 31st August for certain categories of tax payers

- ✚ Assessee having income from profits and gains of business or profession and partner of a firm, whose accounts are not required to be audited under this Act or under any other law for the time being in force, the due date of filing ITR is proposed to be revised to 31st August from 31st July.
- ✚ Now, the various due dates are as under:

Category of tax payers	Due date
Assessee who is subject to transfer price audit	30/11
Assessee who is subject to audit under any Act and partners of the firm whose accounts are subject to audit	31/10
Assessee having business income and partners of firm whose accounts are not subject to audit	31/08
All other cases	31/07

Filing of Revised Return

- ✚ Time limit for filing of revised ITR is proposed to be revised to 31st March of the next year as against present time limit of 9 months, subject to payment of prescribed fees as under:
 - Rs 1,000 for total income up to Rs 5 lakhs
 - Rs 5,000 for total income exceeding Rs 5 lakhs

Updated Return

- ✚ 2025ACT - It is proposed to allow filing of updated return in such cases where taxpayer reduces the amount of loss in comparison to the amount of loss claimed in the original return of loss, which was furnished within the due date. (Applicability – from Tax Year 2026-27).
- ✚ Presently, filing of updated return is not permitted in cases where assessment, reassessment, search, survey, or prosecution proceedings are pending or completed. It is proposed to allow filing of updated return within specified time in such cases where proceedings of reassessment have been initiated and notice of reassessment has been issued under section 280 of the 2025ACT.
- ✚ It is also proposed that the additional income-tax payable shall be increased by a further sum of 10 % of the aggregate of tax and interest payable where an updated return is filed in pursuance of a notice.
- ✚ Similar amendments are proposed in 1961ACT which shall come into force from 01-03-2026.



EXEMPTIONS & DEDUCTIONS

- ✚ Section 29 of the 2025ACT provides for deduction of any amount of contribution received by the assessee from an employee, if such amount is credited by the assessee to the account of the employee in the relevant fund or funds by the due date. Earlier the due date was considered as the respective due date of deposit to the fund. Now, it is proposed that the due date for the said clause shall be the due date of filing of return of income.
- ✚ It is proposed to provide exemption to a foreign company, on any income accruing or arising in India or deemed to accrue or arise in India by way of procuring data centre services from a specified data centre, for a period up to tax year ending on 31st March, 2047. The condition for this exemption is that where services are provided to Indian users by the foreign company, it shall be routed through an Indian reseller entity.
- ✚ It is proposed to provide exemption to a foreign company for a period up to the tax year 2030-2031, on any income arising on account of providing capital goods, equipment or tooling to a contract manufacturer, being a company resident in India, who is located in a custom bonded area and produces electronic goods on behalf of such foreign company for a consideration.
- ✚ It is proposed that exemption from capital gains tax in respect of income arising from redemption of Sovereign Gold Bonds (SGB) issued by the Reserve Bank of India shall be available only where the SGB is subscribed to by a subscriber at the time of original issue and is held continuously until redemption on maturity.
- ✚ Presently, deduction of 100% on certain incomes to the units of IFSC (International Financial Services Centre) and OBU (Offshore Banking Unit in a SEZ) is available for 10 consecutive years out of 15 years for units in IFSC and 10 consecutive years for OBU. It is proposed to increase the period of deduction to 20 consecutive years out of 25 years for units in IFSC and 20 consecutive years for OBU. It is also proposed that the business income of these IFSC units after the expiry of period of deduction will be taxed at rate of 15%.
- ✚ It is proposed that certain specified businesses of non-residents opting for presumptive taxation, namely, business of operation of cruise ships and the business of providing services or technology for the setting up an electronics manufacturing facility in India to a resident company shall be excluded from the applicability of MAT.



EXEMPTIONS & DEDUCTIONS (CONTD)

- ✚ No deduction is proposed to be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds. It was presently allowed up to 20% of such income in 2025ACT.

PENALTY, PROSECUTION & FINES

- ✚ In respect of offences and prosecution, it is proposed to amend Section 473 to 485 & 494 of the 2025ACT as follows (Applicability – from Tax Year 2026-27):
 - The nature of punishment is proposed to be changed from rigorous imprisonment to simple imprisonment wherever prescribed in the abovementioned sections.
 - Maximum punishment is proposed to be limited to 2 years from its current 7 years and for the subsequent offences, it is proposed to be reduced to 3 years from the present 7 years.
 - Wherever punishment of offences is prescribed based on certain monetary limits of tax evaded, new monetary limits of offences and its corresponding punishment is proposed. For amount of tax evaded does not exceed ten lakh rupees, punishment of only fine is proposed.
 - In some cases, imposition of fine is proposed in lieu of or in addition of imprisonment.
 - Certain offences are proposed to be fully decriminalized with imposition of fine only.
 - A detailed table portraying the existing as well proposed provisions are enclosed as Annexure -1
 - Similar amendments are proposed in the 1961ACT which shall be made applicable from 01.03.2026.
- ✚ Section 49 & 50 of the Black Money Act provides for penal and prosecution measures in cases of wilful non-disclosure of foreign income and assets by residents. It is proposed to amend sections 49 and 50 to provide that these provisions shall not apply in respect of foreign assets, other than immovable property, where the aggregate value does not exceed twenty lakh rupees. These amendments shall take effect retrospectively from the 1st day of October, 2024.



PENALTY, PROSECUTION & FINES (CONTD)

- + It is proposed to provide that, penalty under Section 274 of the 1961ACT for underreporting of income levied under section 270A of that Act shall be imposed within the assessment Order. It is further proposed that this proposed amendment shall come into force in the Income-tax Act, 1961 from the 01.03.2026.
- + If a person fails to furnish Tax Audit Report, he is liable to pay penalty of Rs 1 lakh. It is proposed to convert penalty into fee as under:
 - Rs 50,000 for a delay up to one month and
 - Rs 1 lakh thereafter.
- + If a person fails to get his accounts audited, he is liable to pay penalty up to Rs 1.50 lakhs. It is proposed to convert penalty into fee as under:
 - Rs 75,000 for a delay up to one month and
 - Rs 1.5 lakhs thereafter.

NON-PROFIT ORGANISATIONS (NPO)

+ Merger of NPOs and Tax on Accreted Income

Under existing provisions of sec 352(4) of 2025ACT merger of an NPO with another entity (other than an NPO with similar objects) attracts tax on accreted income. The law did not clearly exempt merger between two registered NPOs having same or similar objects. It is proposed to insert Section 354A to provide that section 352 shall not apply where:

- the NPO merges with another registered NPO having same or similar objects, and
- the merger satisfies prescribed conditions.

+ Rationalisation of “Specified Violations” by NPOs

Earlier, commercial activity by NPOs engaged in advancement of general public utility was treated as a specified violation, leading to possible cancellation of registration. It is proposed that:

- Such violation is removed as **specified violations** and it will continue to be treated as an **“other violation”** under section 353 of 2025ACT.



NON-PROFIT ORGANISATIONS (NPO) (CONTD)

+ Certain Funds Exempted from Mandatory Registration

Section 332 required persons referred to in Schedule VII (Sl. No. 10 to 16) to register as NPOs, though they earlier enjoyed exemption under section 10 of the 1961ACT without registration. In order to align the said provision with the 1961ACT and provide clarity it is proposed to remove the reference of aforesaid persons from section 332(1)(f) of the 2025ACT, so that such person shall not be required to registered themselves under section 332 of the said Act.

+ Filing of Belated Return by Registered NPOs

Earlier there was no provision to file a belated return in 2025ACT. it is proposed to allow filing of a belated return even after the due date.

OTHER PROVISIONS

+ It is proposed to increase the rate of STT on sale of an option in securities from 0.1% to 0.15%t of the option premium and on sale of a future in securities from 0.02 per cent to 0.05 per cent of the traded price. The revised rates shall apply to transactions in options and futures in securities entered into on or after 01.04.2026. This will adversely affect the stock market.

+ Under the existing provisions of the 2025ACT, consideration received by a shareholder on buy-back of shares by a company is treated as dividend income and taxed accordingly, while the cost of acquisition of the shares extinguished on buy-back is recognised separately as a capital loss. It is proposed that consideration received on buy-back shall be chargeable to tax under the head “Capital gains” instead of being treated as dividend income. In case where the shareholder is promoter, the rate of tax shall be normal capital gain tax rate plus additional tax as specified.

+ Presently, income on account of, unexplained credits, unexplained investment, unexplained asset etc are taxed @ 60%. It is proposed to reduce the same to 30%.



- ✚ it is proposed to clarify that notwithstanding anything contained in any judgment, order or decree of court, no assessment in pursuance of any of the provisions of 1961ACT shall be invalid or shall be deemed to have been invalid on the ground of any mistake, defect or omission in respect of quoting of a computer-generated Document Identification Number, if such assessment order is referenced by such number in any manner. Further, this amendment seeks to clarify as long as there is a reference of DIN in the assessment order, the same would be sufficient compliance even if there may be some minor mistakes, defects or omissions in notices or summons in relation to such assessment. The clarification in 1961ACT shall come into force with retrospective effect from 1st day of October, 2019. **Number of cases are likely to be reopened even after Hon'ble court orders, leading to further litigation.**

Suitable amendments are also proposed to be carried out in the 2025ACT so that correct interpretation is taken, litigation is minimized and certainty is achieved.

FOREIGN ASSETS OF SMALL TAX PAYERS DISCLOSURE SCHEME

- ✚ Any person can file a declaration for a previous year before the last date of this scheme in respect of income or asset where he has failed to furnish return under Sec 139 of 1961ACT or failed to disclose such asset or income in return furnished by him before commencement date of this scheme or such asset or income has escaped assessment.
- ✚ Where a person declares an undisclosed asset located outside India or undisclosed foreign income, tax shall be payable at 30% of value of undisclosed asset located outside India as on 31.03.2026 and on undisclosed foreign income plus 100% of tax so computed. Thus, effective rate of tax shall be 60%. This provision applies only if the total value of such undisclosed foreign assets and foreign income does not exceed Rs 1 crore.
- ✚ A fee of ₹1 lakh shall be payable if an assessee has an undisclosed asset located outside India, which was acquired from foreign income earned while the assessee was a non-resident, or from income already taxed under the Income-tax Act but not reported in the return. This applies only where the value of the foreign asset does not exceed Rs. 5 crores.



FOREIGN ASSETS OF SMALL TAX PAYERS DISCLOSURE SCHEME (CONTD)

- ✚ After filing and verification of the declaration as above, the amount payable by the assessee shall be communicated electronically, within a period of one month from the end of the month in which the declaration is made, by way of an order in prescribed manner, which shall be paid within a period of two months from the end of the month in which the order was received by him. If payment is not made within prescribed period, the assessee may pay such amount within a further period not exceeding two months, along with simple interest at the rate of 1% for every month or part of a month on such amount.
- ✚ For any income or asset declared, or any amount paid, the declarant cannot seek rectification or revision of any assessment made under Income Tax Act 1961 or Black Money Imposition of Tax Act 2015. Further no set-off, relief, or benefit can be claimed in any appeal or other proceeding under the Income-tax Act, 1961 or the Black Money Act, 2015.
- ✚ If a person makes a valid declaration under the Scheme and pays the required tax or fee, he will get full immunity from any further tax, penalty, or prosecution under the Black Money Act for the declared income or asset up to 31 March 2026.
- ✚ This Scheme does not apply to income or assets linked to proceeding of crime under the Prevention of Money-laundering Act, 2002. It also does not apply where assessment has already been completed under the Black Money Act,






Annexure of Penalty & Prosecution for various offences			
Section	Description of offence	Existing Provision	Proposed provision
473	Contravention of order made during search action	RI up to 2 years + fine	SI up to 2 years + fine
474	Failure to afford facility for inspection of books of account during search	RI up to 2 years + fine	SI up to 6 months and / or fine
475	Removal. Concealment etc. of property to prevent tax recovery	RI up to 2 years + fine	SI up to 2 years + fine
476	Failure to pay TDS	RI up to 7 years + fine	SI up to 2 years and / or fine, if amount of tax > Rs 50 lakh SI up to 6 months and / or fine, if the amount of tax is between Rs 10-50 lakhs With fine in other cases
477	Failure to pay TCS		
478	Willful attempt to evade tax etc.	RI up to 7 years + fine if amount of tax > Rs 25 lakhs RI up to 2 years + fine in other cases	SI up to 2 years and / or fine, if amount of tax > Rs 50 lakh SI up to 6 months and / or fine, if the amount of tax is between Rs 10-50 lakhs With fine in other cases
479	Failure to furnish ITR		
480	Failure to furnish ITR in search cases	With imprisonment up to 3 years + fine	SI up to 2 years and / or fine, if amount of tax > Rs 50 lakh SI up to 6 months and / or fine, if the amount of tax is between Rs 10-50 lakhs With fine in other cases
481	Failure to produce accounts, documents etc.	RI up to 1 year + fine	Fine only in certain cases SI up to 6 months and / or fine in other cases



Annexure of Penalty & Prosecution for various offences			
Section	Description of offence	Existing Provision	Proposed provision
482	False statement in verification etc.	RI up to 7 years + fine if amount of tax > Rs 25 lakhs	SI up to 2 years and / or fine, if amount of tax > Rs 50 lakh SI up to 6 months and / or fine, if the amount of tax is between Rs 10-50 lakhs With fine in other cases
484	Abetment of false ITR	RI up to 2 years + fine in other cases	SI up to 3 years+ fine
485	Subsequent offence	RI up to 7 years + fine	SI up to 1 month and / or fine
494	Disclosure of particulars by public servants	With imprisonment up to 6 months + fine	SI up to 2 years+ fine
483	Falsification of books of accounts	RI up to 2 years+ fine	SI up to 2 years+ fine
RI – Rigorous Imprisonment, SI – Simple Imprisonment			



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