

UNION BUDGET 2026

Comprehensive Analysis of Tax Updates

Presented by Finance Minister Nirmala Sitharaman

February 1, 2026

EXECUTIVE SUMMARY

On February 1, 2026, Finance Minister Nirmala Sitharaman presented her ninth consecutive Union Budget, marking a historic shift in India's taxation framework. This budget stands out not for dramatic tax relief or populist measures, but for its focus on structural reforms, compliance simplification, and investor protection. The government has chosen a path of fiscal consolidation and systemic improvements over headline-grabbing tax cuts.

The most significant announcement is the introduction of the Income Tax Act, 2025, which will replace the 64-year-old Income Tax Act of 1961 starting April 1, 2026. This landmark legislation promises to simplify direct tax laws by reducing sections, eliminating archaic language, and making compliance easier for ordinary citizens. Alongside this foundational reform, the budget introduces targeted measures to curb speculative trading, ease foreign remittances, clarify tax positions on various financial instruments, and strengthen the compliance framework.

Union Budget 2026: The Era of Structural Reform

A Comprehensive Analysis of the Income Tax Act, 2025 and Key Fiscal Updates

KEY TAX MEASURES AT A GLANCE

- Income Tax Act, 2025: Complete modernization of tax laws effective April 1, 2026
- Securities Transaction Tax (STT): Sharp increase on derivatives to curb speculation
- Tax Collected at Source (TCS): Significant reductions for education, medical treatment, and overseas travel
- Share Buyback Taxation: Complete overhaul restoring capital gains treatment
- Sovereign Gold Bonds (SGB): Clarification restricting tax exemption to original subscribers
- ITR Filing Deadlines: Extended timelines for revised returns and non-audit businesses
- Foreign Asset Disclosure: FAST-DS 2026 amnesty scheme for small taxpayers
- International Tax Measures: Incentives for cloud services, IFSC units, and global experts

The Government Prioritizes Systemic Cleanup Over Rate Cuts

Executive Summary: Fiscal consolidation (Deficit Target: 4.3%) drives the agenda, replacing the 64-year-old Tax Act.



1. Structural Reform

Introduction of the Income Tax Act, 2025. Replacing the 1961 Act to modernize and simplify the code.



2. Market Friction

Securities Transaction Tax (STT) hikes on F&O to curb speculative frenzy and manage systemic risk.



3. Strategic Relief

Targeted easing for families via reduced TCS rates and restored capital gains treatment for share buybacks.



4. Compliance

Extended filing timelines and the FAST-DS 2026 amnesty scheme to regularize small foreign assets.

1. INCOME TAX STRUCTURE: STABILITY OVER CHANGE

No Changes to Tax Slabs

The most immediate question on every taxpayer's mind was answered quickly: there are no changes to income tax slabs for Assessment Year 2026-27. After providing substantial relief in Budget 2025, the government has maintained the status quo for both the new and old tax regimes.

Context and Rationale: This decision reflects the government's prioritization of fiscal consolidation over populist tax cuts. With the fiscal deficit targeted at 4.3% of GDP for FY 2026-27 (down from 4.4% in FY 2025-26), the government is staying the course on deficit reduction. Having provided significant middle-class relief in the previous budget, the focus has now shifted to systemic improvements rather than rate adjustments.

The message is clear: the government believes the existing tax structure is appropriate, and further changes would be implemented through the new Income Tax Act, 2025, which promises procedural simplification rather than rate modifications.

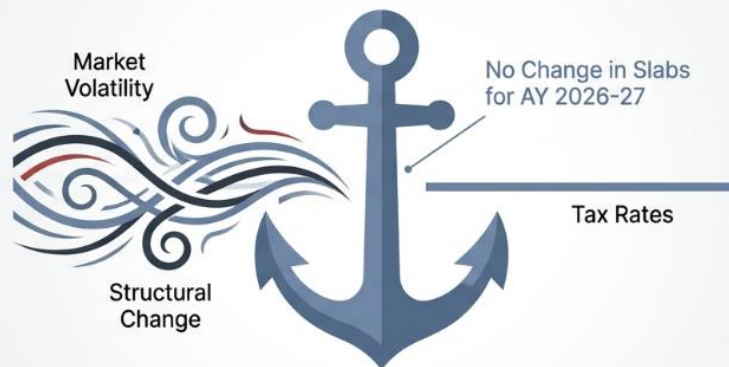
Income Tax Slabs Remain Stable to Support Deficit Reduction

After substantial relief in Budget 2025, the strategy shifts from rate adjustments to procedural simplification.

The Macro Rationale

- Prioritizing fiscal consolidation.
- Fiscal Deficit Target: 4.3% of GDP for FY 2026-27 (down from 4.4%).
- Status Quo maintained for both Old and New Tax Regimes.

The Stability Anchor



2. THE NEW INCOME TAX ACT, 2025: A HISTORIC TRANSFORMATION

Replacing Six Decades of Tax Law

The centerpiece of Budget 2026 is the announcement that the Income Tax Act, 2025 will come into effect from April 1, 2026, replacing the Income Tax Act of 1961 that has governed India's direct taxation for over 60 years. This is not merely a cosmetic change or minor amendment—it represents a complete rewrite of India's tax legislation.

Why the Change Was Necessary

The Income Tax Act of 1961 had become increasingly unwieldy over decades of amendments. What started as a comprehensive tax code had evolved into a labyrinth of provisos, explanations, and sub-clauses that even tax professionals found challenging to navigate. Each successive government added layers of complexity to address new economic realities, technological changes, and evolving tax avoidance strategies.

The result was a statute that had outgrown its original structure. Simple concepts required wading through multiple cross-references. Language that made sense in 1961 had become archaic and confusing. The frequent amendments created inconsistencies that spawned endless litigation, with taxpayers and the department spending years in courts arguing over interpretations.

Key Features of the New Act

Massive Simplification: The new Act achieves what seems impossible—reducing the law by approximately 50%. The number of sections has been cut from 819 to 536, chapters reduced from 47 to 23, and schedules streamlined to 16. This isn't just numerical reduction; it represents genuine simplification through elimination of redundancies and clearer organization.

Modern Language: Gone is the outdated legal terminology that confused taxpayers. The new Act uses plain, contemporary language that ordinary citizens can understand without needing to consult tax experts for basic compliance. Tables and formulas have been introduced to make interpretation easier and reduce ambiguity.

Unified Terminology: One of the most practical changes is the introduction of a single term, 'Tax Year,' replacing the confusing concepts of 'assessment year' and 'previous year' that have perplexed taxpayers for decades. This simple change eliminates a major source of confusion in tax planning and filing.

Consolidated Provisions: TDS provisions, which were previously scattered across multiple sections making compliance difficult, are now consolidated under Section 393. This consolidation makes it significantly easier for businesses and individuals to understand their withholding tax obligations.

Digital-First Approach: The Act formally defines virtual digital space and promotes technology-driven administration. Faceless assessments and online processes are embedded in the structure, reducing physical interaction and scope for discretion. This aligns with the government's broader digital India initiative.

What Remains Unchanged

Revenue Neutrality: The government has emphasized that the new Act is revenue-neutral. This means no changes to tax rates, slabs, or deductions. The reform focuses on form and procedure, not substance. Your tax liability under the new Act will be calculated the same way—just with clearer rules and simpler processes.

Core Principles: The fundamental principles of taxation—what constitutes income, how deductions work, the basic structure of capital gains—remain intact. The change is in how these principles are expressed and administered, not in the principles themselves.

Implementation and Transition

The new Act takes effect from April 1, 2026, giving taxpayers and professionals a three-month transition period from the budget announcement. The government has promised to notify simplified income tax rules and redesigned forms shortly, allowing adequate time for familiarization.

New ITR Forms: The budget announcement specifically mentions that 'forms have been redesigned such that ordinary citizens can comply without difficulty.' This suggests that ITR forms, long criticized for their complexity, will be significantly simplified. Details on these new forms are expected to be released in the coming months.

ICDS Integration: The Income Computation and Disclosure Standards (ICDS) will be repealed effective April 1, 2027. A joint committee consisting of the Ministry of Corporate Affairs and the Central Board of Direct Taxes (CBDT) will be formed to integrate ICDS with Indian Accounting Standards, reducing the burden of maintaining separate records for tax and accounting purposes.

Litigation Reduction Measures

One of the stated objectives of the new Act is to reduce litigation. The government has taken several specific steps toward this goal, including faster Advance Pricing Agreements (APAs) for IT/ITeS services with a target completion time of two years (extendable by six months), improved dispute-resolution mechanisms, and clearer legal language that reduces interpretational disputes.

The Income Tax Act, 2025 Replaces Six Decades of Clutter

Replacing the 'Labyrinth' with a 'Highway'. Effective April 1, 2026.

Income Tax Act, 1961

819
Sections

47
Chapters



Unwieldy Archaic Litigation-heavy

Income Tax Act, 2025

536
Sections

23
Chapters



Modern Plain Language Unified



"Forms have been **redesigned** such that **ordinary citizens** can **comply without difficulty**."

The reform is **revenue neutral**—
focused on procedure, not rates.



Modernizing the Lexicon: From Legalese to Plain English

Key features of the new Act designed for intelligibility and reduced litigation.

Old Confusing Terms

New Plain English

Assessment Year / Previous Year

→ Tax Year (Unified Terminology)

Scattered TDS Provisions

→ Consolidated Section 393

Digital-First Administration

Faceless assessments and virtual digital space formally defined.

Reduced Litigation

Faster Advance Pricing Agreements (APAs) for IT/ITeS with a 2-year target.

ICDS Integration

Merging Income Computation standards with Indian Accounting Standards by April 2027.

3. SECURITIES TRANSACTION TAX (STT): CURBING THE SPECULATION FRENZY

The Dramatic Increase

If there was one announcement in Budget 2026 that sent immediate shockwaves through financial markets, it was the sharp increase in Securities Transaction Tax on futures and options trading. The Nifty fell, India VIX spiked, and derivatives-heavy stocks came under pressure—all within hours of the announcement.

The Numbers

Futures Contracts: The STT rate on futures has been increased from 0.02% to 0.05%—a massive 150% increase. For high-frequency traders executing multiple contracts daily, this represents a substantial cost escalation.

Options Trading: STT on options premium has been raised from 0.10% to 0.15%, while STT on options exercised has increased from 0.125% to 0.15%. While the absolute numbers may seem small, they add up quickly for active traders.

Practical Impact: Real Numbers

To understand the real-world impact, consider an active F&O trader executing 10 contracts of 6 lacs each per day. Under the new STT rates, this trader would pay an additional ₹3,000 in STT daily, which translates to approximately ₹75,000 per month or ₹9,00,000 annually. For high-frequency traders doing hundreds of transactions, the cost escalation is even more dramatic.

The increase doesn't just affect individual traders. Brokerage houses that depend on transaction-based revenues will face pressure on earnings. Market liquidity could be impacted as some participants reduce their trading volumes or exit the market entirely.

The Crisis That Prompted This Move

To understand why the government took this drastic step, we need to look at the alarming statistics on retail participation in derivatives trading. The numbers paint a picture of a market segment that had become dangerously speculative:

Catastrophic Losses: According to SEBI studies, over 90% of retail investors' trades in the F&O segment lead to losses. This isn't a slight majority—nine out of ten retail traders lose money. In FY25 alone, 91% of individual investors in India's equity F&O segment lost money, with total losses reaching a record ₹1.06 lakh crore, up 41% from the previous year.

Explosive Growth: F&O volumes have exploded in recent years, driven largely by retail participation. The ease of online trading, proliferation of trading apps, and social media influencers promoting derivatives trading as a get-rich-quick scheme had created what many described as a 'casino mentality' in the market.

Regulatory Concerns: Regulators had repeatedly flagged concerns about excessive churn, leverage, and short-term speculation, especially in index derivatives like Nifty50 and Bank Nifty. The concern wasn't just about individual losses—there was systemic risk from the concentration of retail traders using high leverage.

Government's Stated Objectives

At the post-budget press conference, Finance Minister Sitharaman was explicit about the government's intentions. She stated, 'This nominal increase is purely aimed at speculation, only to deter them, to discourage them. We are not against it (F&O trade), but small investors are facing losses, so how can we be quiet, so it (STT hike on F&O) is to deter such investments.'

Revenue Secretary Arvind Shrivastava added that the STT hike is aimed at managing wider risks in the market: 'The government's intention is to discourage speculative tendencies, and the increase in rate is essentially in that direction. So, it is meant to essentially handle the systemic risk in derivative markets.'

The key objectives are:

- **Protecting Small Investors:** The government cannot remain silent while retail investors face enormous losses in speculative trading
- **Managing Systemic Risk:** Reduce dangerous levels of speculation that could pose broader market stability concerns
- **Behavioral Modification:** Add friction to rapid-fire trading without touching long-term investing
- **Revenue Generation:** STT collections from F&O segment are estimated to reach ₹73,700 crore in FY27

Market Expert Reactions

Market experts have offered mixed assessments of the move. Shripal Shah, MD and CEO of Kotak Securities, noted: 'The steep increase in STT on futures and options, coming on top of last year's hike, is likely to raise impact costs for traders, hedgers, and arbitrageurs. This could cool derivative activity and lead to a reduction in volumes. The intent appears to be volume moderation rather than revenue maximisation.'

Some market participants have criticized the dual taxation approach—having both STT and capital gains tax—arguing that this represents double taxation. Others point out that while the objective of protecting retail investors is laudable, better financial education might be more effective than tax increases.

Historical Context: The STT Story

To understand the current changes, it's useful to know the history of STT. It was first introduced in October 2004 as a levy on securities transactions on recognized stock exchanges. The original policy rationale was that STT would be collected automatically at the point of transaction, and in exchange, long-term capital gains from equity would be tax-free.

That understanding changed in 2018 when then-Finance Minister Arun Jaitley reintroduced long-term capital gains tax on equities while retaining STT. This marked a departure from the original policy intent and created the 'double taxation' situation that exists today. Since then, successive finance ministers have continued this approach.

Who's Affected and How

High-Frequency Traders: The biggest impact will be felt by traders doing dozens or hundreds of transactions daily. The cumulative STT can significantly eat into their profits.

Retail F&O Traders: Active retail traders in the F&O segment will see their transaction costs rise substantially. For those already struggling with losses, this adds to their burden.

Hedgers and Arbitrageurs: Professional market participants who use derivatives for legitimate hedging or arbitrage strategies will also face higher costs, though they typically have better risk management.

Long-Term Equity Investors: Minimal to no impact. Cash equity transactions see no change in STT, and long-term investors rarely use derivatives for speculation.

Brokerage Firms: Discount brokers heavily dependent on high F&O volumes will face revenue pressure as trading activity potentially decreases.

Effective Date and Looking Forward

The new STT rates take effect from April 1, 2026. Market participants will need to adjust their strategies and recalibrate their trading models to account for the higher transaction costs. The coming months will reveal whether the increase achieves its stated objective of reducing speculation while maintaining adequate market liquidity.

STT Hikes Aim to Deter the ‘Casino Mentality’ in Derivatives

Government response to massive retail losses (₹1.06 lakh crore in FY25).

Why the Hike?

- **91%** of individual investors in Equity F&O lost money in FY25.
- Retail losses grew **+41%** YoY.
- Regulatory Goal: Deterrence via Taxation.

Futures STT:

0.02% → 0.05%
(+150% Increase)

Options STT:

0.10% → 0.15% (Premium)



“The government cannot remain silent while retail investors face enormous losses... it is meant to handle systemic risk.” — Revenue Secretary

4. TAX COLLECTED AT SOURCE (TCS): EASING THE BURDEN ON FOREIGN REMITTANCES

A Welcome Relief for Families

In a move that will bring significant relief to thousands of families sending money abroad for education and medical treatment, Budget 2026 proposes substantial reductions in Tax Collected at Source (TCS) rates under the Liberalised Remittance Scheme (LRS).

The Changes in Detail

Education and Medical Remittances: The TCS rate has been reduced from 5% to 2% for remittances exceeding ₹10 lakh in a financial year for education purposes and medical treatment. This represents a 60% reduction in the tax collection rate, significantly improving cash flow for families dealing with overseas education or medical expenses.

Overseas Tour Packages: Perhaps the most dramatic change is for overseas travel. The TCS rate on overseas tour program packages has been slashed to a uniform 2% from the previous tiered structure of 5% (up to ₹10 lakh) and 20% (exceeding ₹10 lakh), with no minimum amount threshold. This eliminates the punitive 20% rate that previously applied to high-value travel packages.

Understanding the Cash Flow Impact

It's important to understand that TCS is not an additional tax—it's tax collected at source that can be claimed as credit when filing income tax returns. However, the upfront cash flow impact is significant, especially for middle-class families managing large expenses.

Consider a family sending ₹30 lakh for their child's overseas education:

- Under the old regime: First ₹10 lakh = No TCS; Remaining ₹20 lakh = ₹1,00,000 TCS (5%)
- Under the new regime: First ₹10 lakh = No TCS; Remaining ₹20 lakh = ₹40,000 TCS (2%)

The family saves ₹60,000 in upfront cash outflow. While they would eventually claim this amount as credit, the improved liquidity is crucial when dealing with time-sensitive education or medical expenses.

The Context Behind These Changes

These TCS reductions build on changes made in Budget 2025, which had already increased the exemption threshold from ₹7 lakh to ₹10 lakh per financial year and removed TCS on education remittances funded by loans. Budget 2026 takes this relief further by reducing the rates themselves.

The government recognized that the previous high TCS rates, while intended to ensure tax compliance on foreign remittances, were creating genuine hardship for families with legitimate needs. The especially punitive 20% rate on high-value tour packages was seen as excessive and discouraging legitimate overseas travel.

What Remains Unchanged

The ₹10 lakh threshold remains in place—remittances below this amount continue to attract no TCS. Also, remittances for education funded by loans remain exempt from TCS, a benefit introduced in the previous budget and continued here.

Other TCS Changes: Increases in Certain Categories

While providing relief in some areas, the budget also increases TCS rates in others:

- Scrap Sales: TCS increases from 1% to 2%
- Alcoholic Liquor for Human Consumption: TCS increases from 1% to 2%

These increases reflect the government's attempt to balance revenue needs with taxpayer convenience, tightening collection in some areas while providing relief in others where genuine hardship was evident.

Easing the Liquidity Crunch on Foreign Remittances (TCS)

Significant rate cuts reduce upfront cash lock-in for middle-class families.

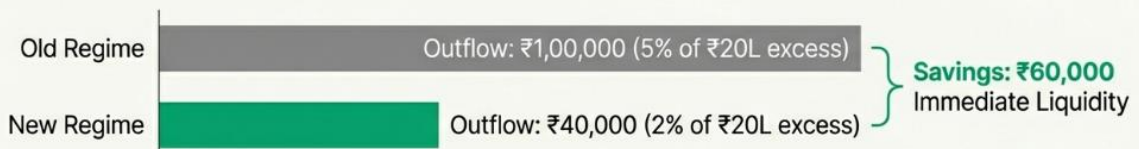
Education & Medical (>₹10L)

↓ **5% → 2%**

Overseas Tour Packages

↓ **20% (Tiered) → Flat 2% (No threshold)**

Cash Flow Case Study: Education Remittance



5. SHARE BUYBACK TAXATION: RESTORING ECONOMIC LOGIC

The Problem with Dividend Treatment

Budget 2026 brings a major overhaul to share buyback taxation, reversing the dividend-based taxation system that was introduced just over a year ago in October 2024. This reversal addresses significant problems that emerged from treating buyback proceeds as deemed dividend income.

What Was Wrong With the October 2024 System

Under the system introduced in October 2024, shareholders participating in a buyback faced a peculiar situation. The amount received was treated as 'deemed dividend' and taxed at their applicable income tax slab rates, which could be as high as 30% (plus surcharge and cess). Simultaneously, the cost of acquisition of the shares tendered was recognized as a capital loss.

This created two major problems:

- **The Phantom Loss Problem:** Small shareholders were taxed on the entire buyback amount without being able to deduct their original purchase price. They could record a capital loss, but if they had no other capital gains to offset it against, this loss was essentially useless. The Income Tax Department noted that 'small shareholders often had no capital gains against which they could set off the capital loss arising from buybacks,' calling the framework 'inefficient and inequitable.'
- **Promoter Arbitrage:** Large promoters could use the structure to their advantage. By treating buybacks as dividends while offsetting capital losses elsewhere, they could significantly reduce their effective tax rate. Meanwhile, minority shareholders paid full tax on the entire amount.

The New Capital Gains Framework

Budget 2026 restores the capital gains treatment that existed before October 2024, with enhancements to prevent abuse. Under the proposed framework:

For Regular Shareholders (Non-Promoters): Buyback proceeds will be taxed as capital gains, allowing shareholders to deduct their original purchase price and pay tax only on the actual gain. For shares held longer than 12 months (long-term), the gain is taxed at 12.5%. For shares held less than 12 months (short-term), listed shares are taxed at 20%, while unlisted shares are taxed at applicable slab rates.

Example: If you purchased shares at ₹100 and participate in a buyback at ₹150, your taxable capital gain is only ₹50. If held for more than 12 months, you pay 12.5% of ₹50 = ₹6.25 per share. This is far more equitable than paying tax on the entire ₹150.

Differential Rates for Promoters

To prevent promoters from using buybacks as a tax-planning tool and to ensure that buyback decisions are made in the interest of all shareholders, the budget introduces differential rates:

- **Domestic Company Promoters:** Effective tax rate of 22% on buyback gains
- **Non-Domestic Company Promoters:** Effective tax rate of 30% on buyback gains

These rates ensure that promoters' tax liability remains broadly similar to what it would have been if buybacks were taxed as dividends, thus eliminating the arbitrage opportunity while providing fairness to minority shareholders.

Impact on Corporate Payout Strategies

The change could revive buybacks as a preferred method of returning cash to shareholders, particularly for cash-rich IT companies. After the October 2024 changes, buyback announcements had declined sharply. According to Prime Database, only one company announced a buyback in early 2026 (₹34 crore), compared to 14 companies (₹19,716 crore) in 2025 and 48 companies (₹13,539 crore) in 2024.

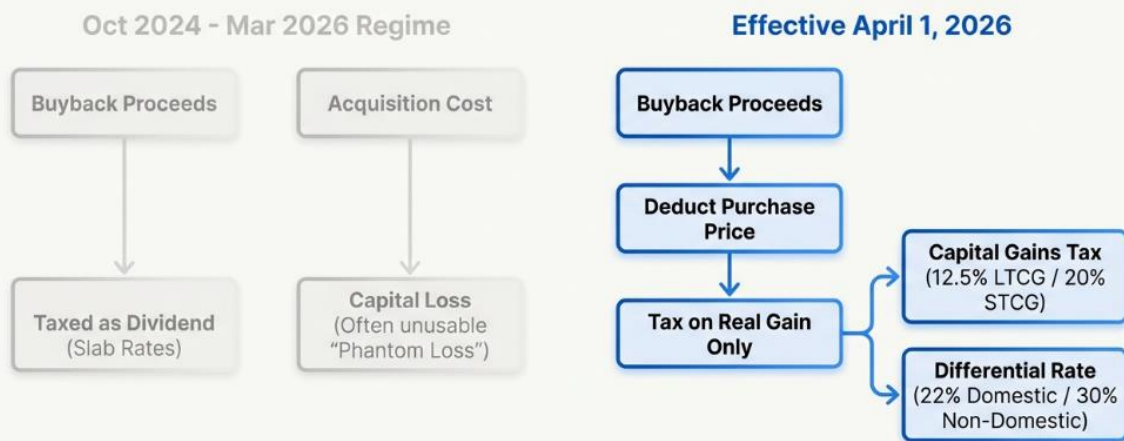
The IT sector, which has historically been the largest user of buybacks, saw particular relief. Despite weak market conditions on budget day, the Nifty IT index rose 0.6%, with Wipro gaining 2% and TCS gaining 1.7%, reflecting market approval of the change.

Expert Assessments

Experts noted: 'The government has restored the true character of buybacks as a capital transaction rather than a profit distribution. This move eliminates the phantom loss trap, where acquisition costs were previously unusable against dividend income. For minority shareholders, this translates into higher post-tax returns and reinforces India's position as a mature, investor-aligned capital market.'

Share Buybacks Restore Capital Gains Treatment

Reversing the 'Deemed Dividend' rule to fix the Phantom Loss trap.



6. SOVEREIGN GOLD BONDS: CLARIFYING TAX-FREE STATUS

The Tax-Free Promise—With Conditions

Sovereign Gold Bonds (SGBs) have been marketed as offering tax-free redemption at maturity, making them an attractive alternative to physical gold. However, Budget 2026 has introduced an important clarification that significantly impacts investors who purchased SGBs from the secondary market.

The New Rule

According to Budget 2026, capital gains tax exemption on SGB redemption will only be available to taxpayers who:

- Subscribed to the SGB at the time of original issue from RBI
- Hold the bonds continuously until maturity (8 years)
- Redeem them at the end of the tenure

SGBs bought from the stock exchange (secondary market) will no longer qualify for tax-free maturity redemption, even if held until the end of the 8-year period. For these investors, a 12.5% Long-Term Capital Gains (LTCG) tax will apply on gains at maturity.

Understanding the Secondary Market Impact

Many investors purchased SGBs from stock exchanges, often paying a premium over the nominal value because of the tax-free redemption benefit. These investors now face a significant change in their investment proposition. The proposed regime fundamentally alters the valuation of SGBs traded on exchanges and may wipe out secondary market premiums that existed specifically because of the tax-free status.

Consider an investor who bought SGBs from the exchange at a 10-15% premium, expecting tax-free returns. With the new rule, their effective post-tax returns will be lower than originally anticipated, potentially making the premium paid less justifiable.

What About the Interest?

It's important to note that the 2.5% annual interest paid on SGBs remains fully taxable for all investors—original subscribers and secondary market buyers alike. This has always been the case and continues unchanged. The change only affects the capital appreciation component at maturity.

Effective Date and Grandfathering

The new rule comes into effect from April 1, 2026 (applicable from Tax Year 2026-27 onwards). For SGBs maturing before this date, the old rules continue to apply. The government has not provided specific grandfathering provisions for SGBs purchased from the secondary market before the announcement, which means secondary market buyers may need to reassess their holdings.

Secondary Market SGBs Lose Their Tax-Free Premium

New rules restrict tax-free redemption to original subscribers only.



Strategic Implication:

Secondary market premiums paid for tax-free status are at risk of evaporating.

Reminder:

Annual 2.5% interest remains fully taxable for all.

7. ITR FILING DEADLINES: MORE TIME FOR COMPLIANCE

Extended Timelines for Taxpayer Convenience

Budget 2026 introduces several timeline extensions that will make tax compliance significantly easier for different categories of taxpayers.

Revised Returns: December 31 to March 31

One of the most welcome changes is the extension of the deadline for filing revised income tax returns from December 31 to March 31 of the assessment year, on payment of a nominal fee. This gives taxpayers an additional three months to identify and correct errors in their original returns.

This change is particularly valuable because mistakes in tax returns are common - missed deductions, incorrect reporting of income, or data entry errors. Previously, taxpayers who discovered errors after December 31 had limited options. Now, they have until March 31 to file a revised return, paying only a nominal fee.

Non-Audit Business Taxpayers: July 31 to August 31

Taxpayers who file ITR-3 (for business income) or ITR-4 (for presumptive taxation) and don't require a tax audit now get an extra month. The deadline extends from July 31 to August 31, effective from FY 2025-26 (Assessment Year 2026-27).

This extension recognizes that business taxpayers need time to compile their records, finalize accounts, and ensure accurate reporting even when they don't need a formal audit. The extra month provides breathing room during the busy post-financial-year period.

Regular Taxpayers: No Change

For salaried individuals and others filing ITR-1 or ITR-2, the deadline remains July 31. However, with the extended revised return deadline, even these taxpayers have more flexibility to correct mistakes after their initial filing.

TDS Refunds Even with Late Filing

Under the new Income Tax Act, 2025, taxpayers can now claim TDS refunds even if they file their returns after the deadline. Previously, late filing could complicate or prevent TDS refund claims. This change ensures that taxpayers who file late for genuine reasons don't lose their rightful refunds, though late filing fees and interest may still apply.

Compliance Extensions Provide Breathing Room

Revised timelines for returns and corrections ease the cost of errors.



Key Procedural Win: Taxpayers can now claim TDS refunds even if returns are filed late.

8. FOREIGN ASSET DISCLOSURE SCHEME: FAST-DS 2026

Addressing Unintentional Non-Compliance

Budget 2026 introduces a significant relief measure for residents who may have unintentionally failed to disclose foreign income or assets. The Foreign Assets of Small Taxpayers – Disclosure Scheme (FAST-DS 2026) provides a six-month window to regularize such holdings and secure immunity from prosecution.

Who This Scheme Targets

The Finance Minister specifically recognized that students, young professionals, technology employees, relocated NRIs, and similar taxpayers often face practical and unintentional lapses in reporting foreign income or assets due to complex disclosure rules. Common scenarios include:

- Holdings from foreign employment benefits such as ESOPs or RSUs
- Idle or low-value foreign bank accounts from alumni days
- Savings or insurance policies of returning non-residents
- Assets held by individuals on deputation abroad

Two Categories of Taxpayers

Category A: Undisclosed Income or Assets

- Eligibility: Taxpayers who did not disclose foreign income or assets in their returns
- Limit: Undisclosed income/assets not exceeding ₹1 crore
- Payment Required: 30% of Fair Market Value as tax + 100% of tax as additional tax (penalty)
- Total Effective Rate: 60% of the undisclosed amount

Category B: Disclosed Income but Undeclared Assets

- Eligibility: Taxpayers who disclosed foreign income and paid due tax, but could not declare the assets acquired from that income
- Limit: Asset value not exceeding ₹5 crore
- Payment Required: Flat fee of ₹1 lakh

Benefits of Disclosure

- Immunity from prosecution under the Black Money Act, 2015
- Protection from penalties beyond the specified amounts
- Peace of mind and clean slate for future compliance

Historical Context

This is the first such scheme since 2015, when a one-time compliance window was offered. However, that scheme targeted mainly high-value foreign holdings and overlooked small or low-value holdings. FAST-DS 2026 specifically addresses the needs of small taxpayers who may have made genuine mistakes.

Timeline and Action Items

The scheme will remain open for six months from the date notified by the central government. Eligible taxpayers should:

- Conduct a thorough audit of all foreign assets and income
- Determine which category they fall under
- Consult with a chartered accountant or tax advisor
- File declarations promptly within the window period

FAST-DS 2026: A One-Time Clean Slate for Foreign Assets

Amnesty scheme targeting accidental non-compliance by students, techies, and NRIs.

Who is this for?



- Techies with ESOPs
- Students with old accounts
- Returning NRIs

Category A (Small Undisclosed Assets)

Limit: < ₹1 Crore

Penalty: 60% Effective Tax (30% Tax + 100% Penalty)

Benefit: Immunity from Black Money Act prosecution.

Category B (Undeclared Asset from Disclosed Income)

Limit: < ₹5 Crore

Penalty: Flat Fee: ₹1 Lakh

Benefit: Regularization of reporting errors.

9. OTHER SIGNIFICANT TAX MEASURES

TDS Changes and Simplifications

Motor Accident Compensation

Interest awarded by Motor Accident Claims Tribunals to natural persons (accident victims or their families) will be fully exempt from income tax, with no TDS requirement. Previously, TDS applied if interest exceeded ₹50,000. This ensures that compensation reaches beneficiaries in full during their time of need.

NRI Property Transactions

From October 1, 2026, resident individuals and Hindu Undivided Families (HUFs) buying property from a non-resident Indian (NRI) will no longer need to obtain a separate Tax Deduction and Collection Account Number (TAN). They can now use their PAN to deduct TDS and quote the seller's PAN. This eliminates a significant compliance hurdle in NRI property transactions.

Form 15G/15H Simplification

Senior citizens and other eligible taxpayers previously had to submit Form 15H (or Form 15G for non-seniors) separately to each company paying dividends or interest, which was time-consuming and confusing. Now, submitting the form just once to the depository will be enough, with the depository handling distribution to all relevant companies. This is a major administrative relief.

Manpower Supply Services

Supply of manpower services has been explicitly included within the definition of 'work,' bringing them clearly under the contractor payments framework. TDS will apply at either 1% or 2%, reducing ambiguity and disputes. This benefits labour-intensive businesses and MSMEs by providing clarity.

International Tax Measures

Cloud Services and Data Centers

Until 2047, all foreign companies that render cloud services using data centers located in India will be tax-exempt to the extent of income arising in India. This long-term tax holiday aims to promote digital infrastructure growth, drive cloud infrastructure investments, and make India more competitive globally as a data center hub.

IFSC Units

The tax holiday for units in International Financial Services Centres (IFSC) and Offshore Banking Units has been increased from 10 to 20 years. After this period, income of IFSC units will be taxed at 15%. This extended benefit makes India's IFSCs more competitive with other global financial centers.

Non-Resident Experts

To enable a vast pool of global talent to work in India for longer periods, the budget proposes exemption of global (non-India sourced) income of non-resident experts for a stay period of 5 years under notified schemes. This provides tax certainty that only their Indian-sourced income will be taxed despite their long period of stay, making India an attractive destination for global talent.

Minimum Alternate Tax (MAT)

Exemption from MAT has been provided to all non-residents who pay tax on a presumptive basis. Additionally, for companies opting for the new corporate tax regime, MAT becomes a final tax from April 1, 2026, with the rate reduced from 15% to 14%. Existing MAT credit can be set off at 25% of tax liability per year.

Cooperative Societies

Inter-cooperative society dividend income will be allowed as a deduction under the new tax regime to the extent it is further distributed to members. Additionally, a three-year exemption has been provided for dividend income received by notified national cooperative federations on their investments made in companies up to January 31, 2026.

Penalty and Prosecution Reforms

The government has undertaken comprehensive rationalization of penalty and prosecution provisions. Technical offences are being decriminalized, penalties for procedural defaults are being converted into fees to reduce litigation, and punishment is being made proportionate to the gravity of the offense. For crypto-assets, new penalty frameworks include ₹200 per day for delays in furnishing transaction statements and ₹50,000 for inaccurate information. Under the Black Money Act, prosecution will not be initiated where aggregate value of foreign assets (excluding immovable property) does not exceed ₹20 lakh, with retrospective effect from October 1, 2024.

Targeted Incentives for Digital Infrastructure and Global Integration

Specific sector measures to boost competitiveness.



Cloud & Data Centers

Tax holiday until 2047 for foreign companies using Indian data centers.



IFSC (GIFT City)

Tax holiday extended to 20 years. Post-holiday rate: 15%.



Real Estate (NRI)

Simplified TDS. Buyers no longer need TAN; can use PAN for transactions.



Global Talent

Non-resident experts' global income exempt for 5-year stay.

10. CONCLUSION: A BUDGET OF STRUCTURAL REFORMS

Union Budget 2026 represents a fundamental shift in India's tax policy approach. Rather than offering dramatic tax relief or populist measures, the government has chosen to invest political capital in structural reforms that promise long-term benefits.

The Core Philosophy

The budget reflects several key priorities:

- **Simplification Over Complication:** The new Income Tax Act represents genuine effort to make compliance easier
- **Investor Protection:** STT increases and buyback taxation changes show concern for retail investor welfare
- **Ease of Living:** TCS reductions and filing deadline extensions reduce compliance burden
- **Fairness and Clarity:** SGB taxation clarification and disclosure schemes promote transparent compliance
- **Fiscal Discipline:** Maintaining deficit targets while implementing reforms shows commitment to macroeconomic stability

Who Benefits

- Families sending money abroad for education or medical treatment get significant TCS relief
- Minority shareholders in companies doing buybacks get fairer tax treatment
- Small taxpayers with inadvertent foreign asset non-disclosures get amnesty
- NRIs buying property in India face simpler TDS procedures
- All taxpayers benefit from simpler laws, longer filing deadlines, and clearer rules

Who Faces Higher Costs

- Active F&O traders face substantially higher transaction costs from STT increases
- Secondary market SGB buyers lose tax-free redemption benefit
- Businesses dealing in scrap or alcoholic liquor face higher TCS rates

Looking Ahead

The success of Budget 2026 will be measured not by immediate market reactions but by long-term outcomes: Does the new Income Tax Act genuinely simplify compliance? Do STT increases reduce speculative losses without harming market liquidity? Does the FAST-DS scheme bring hidden foreign assets into the tax net? Do the various procedural simplifications reduce litigation?

The government has made a calculated bet that simplicity, clarity, and fairness will ultimately deliver stronger compliance, deeper markets, and sustained economic growth. The next few years will reveal whether this approach proves more effective than traditional rate-cutting or relief-focused budgets.

For taxpayers, the message is clear: familiarize yourself with the new rules, take advantage of the compliance windows offered, and prepare for a tax regime that prioritizes procedure and clarity over complexity. The transition period to April 1, 2026, offers an opportunity to understand and adapt to what could be India's most significant tax reform in decades.

The Budget Scorecard: Winners and Losers

A balanced view of the impact across different segments.

WINNERS

- ✓ **Families:** Lower TCS on foreign travel/education.
- ✓ **IT Companies:** Revival of efficient buybacks.
- ✓ **Small Taxpayers:** Amnesty (FAST-DS) & extended deadlines.
- ✓ **Cloud/IFSC:** Long-term tax holidays.

LOSERS

- ⚠ **F&O Traders:** 150% hike in STT on futures; profit erosion.
- ⚠ **Secondary SGB Investors:** 12.5% tax on redemption.
- ⚠ **Scrap/Alcohol Biz:** TCS rate increased 1% -> 2%.