

Union Budget 2026-27 Tax Reforms: Direct and Indirect Changes

February 2, 2026 • vajiramandravi.com



Union Budget 2026-27 Latest News

- Union Finance Minister Nirmala Sitharaman presented the Union Budget 2026-27 in Parliament, describing it as a **Yuva Shakti-driven Budget** rooted in the government's Sankalp to prioritise the poor, underprivileged and disadvantaged.

Direct Taxes: Key Proposals in Union Budget 2026-27

- **New Income Tax Framework**
 - The New Income Tax Act, 2025 will come into force from April 2026.
 - Simplified Income Tax Rules and Forms to be notified shortly.
 - Redesigned tax forms to enable easy compliance for ordinary taxpayers.
- **Relief and Ease for Taxpayers**

- **TCS Rationalisation**– Overseas tour programme packages: TCS reduced to 2% (from 5%–20%), with no amount threshold.
 - Liberalized Remittance Scheme (LRS) for education and medical purposes: TCS reduced from 5% to 2%.
- **TDS Simplification**
 - Manpower supply services brought under TDS provisions applicable to contractors.
 - TDS rate fixed at 1% or 2%, benefiting labour-intensive sectors.
 - Automated, rule-based process introduced for small taxpayers to obtain lower or nil TDS certificates.
- **Return Filing Reforms**
 - Time limit for revising returns extended from 31 December to 31 March, with nominal fee.
 - Staggered timelines for filing income tax returns to ease compliance.
- **Foreign Asset Disclosure**
 - One-time, 6-month disclosure scheme for small taxpayers such as students, young professionals, tech employees, and relocated NRIs to declare overseas income or assets below a specified threshold.
- **Rationalising Penalty and Prosecution**
 - **Reducing Litigation**– Assessment and penalty proceedings to be integrated through a single common order. Pre-payment requirement reduced from 20% to 10%, calculated only on core tax demand.
 - Taxpayers allowed to update returns even after reassessment begins, with an additional 10% tax.
 - **Expanded Immunity Provisions**
 - Immunity from penalty and prosecution extended from under-reporting to misreporting, subject to payment of 100% additional tax.
 - Decriminalisation of:
 - Non-production of books of accounts
 - Non-deduction of TDS where payment is made in kind
 - Immunity from prosecution for non-disclosure of non-immovable foreign assets below ₹20 lakh, with retrospective effect from 1 October 2024.
- **Tax Support for Cooperatives**
 - Deduction extended to cooperatives supplying cattle feed and cotton seed, in addition to milk, oilseeds, fruits and vegetables.
 - Inter-cooperative dividend income allowed as deduction under the new tax regime, if passed on to members.
 - Three-year tax exemption on dividend income for notified national cooperative federations on investments made up to 31 January 2026, subject to redistribution.
- **Strengthening the IT Sector**
 - **Simplified Tax Regime for IT Services**

- Software development, ITES, KPO and contract R&D services clubbed into a single category: Information Technology Services.
- Common safe harbour margin fixed at 15.5%.
- Safe harbour threshold increased from ₹300 crore to ₹2,000 crore.
- Safe harbour approvals to be automated and valid for five continuous years.

- **Faster APA Mechanism**

- Unilateral Advanced Pricing Agreements (APA) for IT services to be concluded within two years (extendable by six months).
- Facility of modified returns extended to associated entities under APA.

- **Attracting Global Business and Investment**

- Tax holiday till 2047 for foreign companies providing global cloud services using Indian data centres.
- 15% cost-based safe harbour for related-party data centre services.
- Safe harbour for bonded warehouse component warehousing at 2% profit margin, resulting in low effective tax.
- Five-year income tax exemption for non-residents supplying capital goods to toll manufacturers in bonded zones.
- Exemption on global income of non-resident experts for five years under notified schemes.
- MAT exemption for non-residents taxed on presumptive basis.

- **Tax Administration Reforms**

- Constitution of a Joint MCA-CBDT Committee to integrate ICDS into IndAS, eliminating dual accounting from FY 2027-28.
- Rationalisation of the definition of 'accountant' for Safe Harbour Rules.

- **Other Key Tax Proposals**

- **Buyback Taxation**

- Buybacks for all shareholders to be taxed as capital gains.
- Additional buyback tax on promoters:
 - 22% for corporate promoters
 - 30% for non-corporate promoters

- **Transaction and Market Taxes**

- TCS on alcoholic liquor, scrap and minerals reduced to 2%.
- TCS on tendu leaves reduced from 5% to 2%.
- STT on futures increased to 0.05%.
- STT on options premium and exercise increased to 0.15%.

- **MAT Reforms**

- MAT to become final tax from 1 April 2026.
- MAT rate reduced from 15% to 14%.
- No fresh MAT credit accumulation post April 2026.
- Existing MAT credit usable only under new tax regime, limited to 25% of tax liability.

Indirect Taxes: Key Proposals in Union Budget 2026-27

- The proposals on Customs and Central Excise aim to simplify the tariff structure, support domestic manufacturing, enhance export competitiveness, correct duty inversion, and improve ease of living and doing business.

1. Rationalisation of Customs Duties

- **Support for Exports and Manufacturing**

- Marine, Leather and Textile sectors:
 - Duty-free import limit for specified inputs used in seafood exports increased from 1% to 3% of FOB value.
 - Duty-free inputs for leather and synthetic footwear exports allowed.

- **Energy and Clean Technology**

- Extension of basic customs duty (BCD) exemption on capital goods used for manufacturing Lithium-ion cells.
- BCD exemption on sodium antimonate used in manufacturing solar glass.
- Entire value of biogas excluded while calculating excise duty on biogas-blended CNG.

- **Nuclear, Critical Minerals and Consumer Electronics**

- Extension of BCD exemption on imports for nuclear power projects till 2035.
- BCD exemption on capital goods required for processing critical minerals.
- BCD exemption on specified parts used in the manufacture of microwave ovens.

- **Civil and Defence Aviation**

- BCD exemption on components and parts for manufacturing civilian, training and other aircraft.
- BCD exemption on raw materials imported for manufacture of aircraft parts used in defence MRO operations.
- Special Economic Zones
- One-time special measure to allow eligible SEZ manufacturing units to sell goods to the Domestic Tariff Area (DTA) at concessional duty rates.

2. Ease of Living Measures

- Tariff rate on dutiable personal imports reduced from 20% to 10%.
- BCD exemption on 17 drugs and medicines.
- Seven additional rare diseases added for duty-free personal imports of medicines and Food for Special Medical Purposes (FSMP).

3. Customs Process Reforms

- **Trade Facilitation**

- Customs processes to adopt minimal intervention for faster cargo movement.
- Duty deferral period for Tier-2 and Tier-3 Authorised Economic Operators (AEOs) increased from 15 to 30 days and extended to eligible manufacturer-importers.
- Validity of advance rulings binding on Customs extended from 3 to 5 years.
- Government agencies encouraged to use AEO accreditation for preferential cargo clearance.

- **Warehousing Reforms**

- Customs warehousing framework to shift to a warehouse-operator-centric model, with:
 - Self-declarations
 - Electronic tracking
 - Risk-based audits

4. Ease of Doing Business Initiatives

- Single interconnected digital window for cargo clearances from all government agencies by end-FY.
- Immediate customs clearance for goods with no compliance requirements after online registration.
- Roll-out of Customs Integrated System (CIS) within two years as a unified, scalable platform.
- Phased expansion of non-intrusive scanning using AI and advanced imaging, with the goal of scanning all containers at major ports.

5. Trade, Logistics and E-commerce Boost

- Fish caught by Indian vessels in the EEZ or High Seas made duty-free.
- Landing of such fish at foreign ports treated as export of goods.
- Removal of ₹10 lakh value cap per consignment on courier exports, supporting MSMEs, artisans and start-ups using e-commerce.

6. Baggage and Dispute Resolution Reforms

- Baggage clearance rules to be revised to enhance duty-free allowances in line with modern travel patterns.
- Dispute settlement mechanism allowing honest taxpayers to close cases by paying an additional amount in lieu of penalty.

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