Union Budget 2026

February 2026

Agenda

01 Foreword

Preface

Budget 2026 brings into focus the government's economic 'kartavyas' of sustained growth; empowering citizens; and Sabka Saath, Sabka Vikas. The financial services sector will play a key role in contributing to the fulfillment of these 'Kartavyas', as the key engine for economic growth in a service-sector led economy.

A future-ready financial services sector is sought to be achieved with simplification of the existing regulatory maze, strengthening governance and making it easier for businesses and investors to operate in an ever-changing environment. Some of the notable moves in this direction include overhauling the rules for inbound foreign investment and deepening bond markets.

On the tax side, the government has chosen not to opt for sweeping, across-the-board rate cuts. Instead, the approach is more refined and targeted — focusing on clarity, reducing ambiguities and fixing long-standing pain points. Among the key proposals are a revamped tax regime for share buybacks, the phase-out of MAT credits as part of the shift toward the new tax regime, extended timelines for filing various categories of returns, and more reasonable penalty and prosecution provisions.

Taken together, Budget 2026 reflects a thoughtful, measured approach — one that prioritises stability, transparency and ease of doing business. It does not chase headlines; instead, it focuses on reducing compliance burdens, lowering litigation risks and strengthening the foundations for sustainable, long-term growth.

02 Key Tax Takeaways

Key Tax Takeaways

01

Buyback

- Income from buy-back of shares for all types of shareholders taxable as Capital Gains (earlier dividend) — additional tax applicable for promoter shareholders

02

IFSC

- Tax holiday period for IFSC units is increased to 20 consecutive years out of 25 years;
- Business income for non-tax holiday period – Taxed at **15%**

03

GST on intermediary services

- GST liability to be based on location of service recipient; zero-rated services for exports and RCM-based tax for imports

04

MAT

- MAT rate — reduced to 14% from the existing 15%
- No new MAT credit from 1 April 2026
- MAT credit set-off is available only under the new tax regime — upto 25% of the current-year tax (for domestic companies). Remaining MAT credit is allowed to be carried forward for the residual period (upto 15 years)

05

Litigation

- Common order for both assessment and penalty
- Quantum of tax to be deposited for contesting orders before CIT(A) is reduced from 20% of overall demand to 10% of base tax amount

03 | Economic Indicators

Economic Indicators

Global economy

- The IMF projects a growth of 3.3% in 2026 and 3.2% in 2027 for the global economy
- Headwinds from evolving trade policies are being counterbalanced by strong tailwinds from rising technology-related investment — particularly in artificial intelligence (AI), with fiscal and monetary support and generally accommodative financial conditions
- Global headline inflation is expected to decline from an estimated 4.1% in 2025 to 3.8% in 2026 and further to 3.4% in 2027

Indian economy and outlook

Real GDP

- Real GDP growth for FY26 is estimated at 7.4% and GVA growth at 7.3%, reaffirming India's status as the fastest-growing major economy for the fourth consecutive year

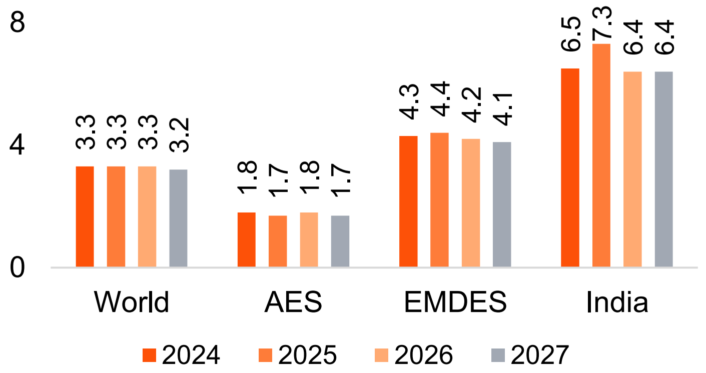
Private final consumption

- Private final consumption expenditure grew by 7.0 % in FY26, reaching 61.5% of the GDP, the highest since 2012

Tailwinds

- This growth is supported by low inflation, stable employment and increasing real purchasing power. Strong agricultural performance has bolstered rural consumption, while improvements in urban consumption, aided by tax rationalisation, indicate broad-based demand momentum

Growth (%)



Source: IMF WEO (January 2026)

AES – Advanced economies

EMDES – Emerging markets and developing economies

Economic Indicators

01 Capital markets

- IPO volumes in FY26 (upto Dec 2025) were 20% higher than in FY25. The listing on the main board rose from 69 to 94. A notable feature was the prominence of OFS activity, i.e. it accounted for 58% of the total proceeds
- During FY26 (till Dec 2025), 23.5m demat accounts were added, pushing the total count beyond 216m
- FPIs have experienced fluctuations during the year. There has been a net outflow of USD 3.9bn as of December 2025, compared to net inflows of USD 10.6bn in the corresponding period of the previous year

02 Banking sector

- Significant improvement observed in the asset quality of scheduled commercial banks (SCBs), with a GNPA ratio of 2.2% and net NPA ratio of 0.5% in September 2025, having reached a multi-decadal and record low level
- As of 31 December 2025, the year-on-year growth in outstanding credit by SCBs increased to 14.5% compared to 11.2% in December 2024

03 Insurance sector

- The sector's financial depth has strengthened, with AUM reaching INR 74,400bn in FY25 and the total premium income rising to INR 11,900bn (from INR 8,300bn in FY21), driven largely by life insurance (91% of AUM and about 75% of premium income)
- Non-life is undergoing structural change, with health insurance accounting for 41% of the gross domestic premium

04 IFSC

- GIFT City's growth has accelerated, with over 1,034 domestic and international entities registered across categories as of 30 November 2025, and a nine-place jump in the GFCI to rank 43 out of 120 within a year.
- In fintech, GIFT City has climbed ten places in the GFCI fintech ranking

04

Key Policy Proposals

Key Policy Announcements

01 FEMA

- Foreign Exchange Management (Non-debt Instruments) Rules are to be comprehensively reviewed to create a more contemporary and user-friendly framework for foreign investments
- PROI are permitted to invest in the equity instruments of listed Indian companies through the PIS
- The following enhanced investment limits are also proposed:
  - Individual limit – from 5% to 10%
  - Overall limit for all PROIs – from 10% to 24%

02 Banking

- High Level Committee on Banking for Viksit Bharat to be created for comprehensive review of the sector and align it to next phase

03 Real Estate

- Dedicated REITs for CPSEs in order to accelerate recycling of significant real-estate assets of CPSEs
- Development of university townships near major industrial and logistic corridors

Key Policy Announcements

04 Infrastructure

- New Infrastructure Risk Guarantee Fund for providing calibrated partial guarantees to lenders to strengthen the confidence of private developers
- Dedicated freight corridors to connect the East and the West
- Operationalisation of 20 new national waterways
- Coastal Cargo Promotion Scheme to increase the share of inland waterways and coastal shipping
- Enhanced infrastructure focus in Tier II and Tier III cities and temple towns
- Development of an integrated East coast industrial corridor
- Development of high-speed rail corridors between cities as ‘growth connectors’
- Restructuring the Power Finance Corporation and Rural Electrification Corporation – to achieve scale and improve efficiency in public-sector NBFCs.

05 Startups, VCs and MSMEs

- Dedicated INR 100bn SME Growth Fund to create future Champions
- Top-up of INR 20bn to Self-Reliant Fund to continue supporting micro enterprises
- Government to facilitate professional institutions such as ICAI and ICSI to develop ‘Corporate Mitras’ in Tier-II and Tier-III towns, to help MSMEs meet compliance requirements at affordable costs
- Measures to be introduced for developing a secondary market and to enhance settlement of transactions for MSMEs through the TREDs platform

Key Policy Announcements

06

Others

- Proposal to introduce a market-making framework and total return swaps for corporate bonds to enhance liquidity
- The government to launch the INR 100bn ‘Biopharma Shakti’ programme, expand NIPER institutes, create 1,000 clinical trial sites, and strengthen CDSCO
- Regional hubs for medical value tourism
- Scheme for construction and infrastructure equipment
- Outlay for Electronics Components Manufacturing Scheme increased to INR 400bn
- Launch of a Scheme for Container Manufacturing with an allocation of INR 100bn over five years
- Launch of ISM 2.0 to support the broader semiconductor ecosystem in India
- Scheme to support states to establish three dedicated chemical parks
- Support to be extended to mineral-rich states to establish dedicated Rare Earth Corridors to promote mining, processing, research and manufacturing, making these inputs accessible to manufacturers at competitive prices
- Joint committee of MCA and CBDT to be set up for incorporating the requirements of ICDS in Ind AS

05 Direct Tax Proposals

Capital Market (1/2)

Rationalisation of buyback taxation

Existing Provision – Dividend

- Indian company – No tax
- Shareholders – Taxed as dividend (gross) + capital loss for cost base

Proposal – Capital Gains

- Indian company – No tax
- Shareholders (non-promoters) – Taxed as capital gains
- Shareholders (promoters*) – Taxed as capital gains + additional tax

Tax rates applicable to promoters (excluding applicable surcharge and cess)

Particulars	Long-term			Short-term		
	Base capital gains tax (as per normal provisions)	**Additional tax (Proposed)**	**Effective base tax rate***	**Base capital gains tax (as per normal provisions)**	**Additional tax (Proposed)**	**Effective base tax rate***
Unlisted shares held by						
Domestic Company	12.50%	9.50%	22.00%	22.00%	0.00%	22.00%
Foreign Company	12.50%	17.50%	30.00%	35.00%	0.00%	35.00%
Others	12.50%	17.50%	30.00%	30.00%	0.00%	30.00%
Listed shares^ held by						
Domestic Company	12.50%	9.50%	22.00%	20.00%	2.00%	22.00%
Foreign Company	12.50%	17.50%	30.00%	20.00%	10.00%	30.00%
Others	12.50%	17.50%	30.00%	20.00%	10.00%	30.00%

*Promoters:

- Listed company – as defined under SEBI Buyback Regulations
- Unlisted company –
  - As defined in the Companies Act, 2013 **or**
  - Person holding >10% shareholding (directly or indirectly)

^subject to STT

Capital Market (2/2)

Other proposals

- Increase in STT rates are proposed as follows:

Transaction	Rates	Payable by
Sale of options	0.15% of the option premium (existing 0.10%)	Seller
Exercise of options	0.15% of the intrinsic price (existing 0.125%)	Buyer
Sale of futures	0.05% of the traded price (existing 0.02%)	Seller

- Capital gains exemption on redemption of sovereign gold bonds is restricted to the original subscriber holding the bonds until maturity
- Investors holding listed securities or units with a depository may submit electronic declarations to the depository for non-deduction of TDS on dividends, interest on securities and mutual fund income. The depository will forward these declarations to the payer. Additionally, the submission timeline to the Income Tax Authority is proposed to be revised from monthly to quarterly
- Deduction for interest expenditure not available against dividend income or income from units of mutual funds taxable under ‘Income from other sources’

Real estate and Infra (1/4)

Real estate

- Resident individuals and HUFs are not required to obtain TAN to deduct TDS in respect of any consideration paid to a non-resident for purchase of immovable property w.e.f. 1 October 2026
- Income in respect of any award or agreement made on account of compulsory acquisition of any land, carried out on or after 1 April 2026, under the specified Act to be exempt from tax

Infrastructure

- Foreign company (notified by the CG and fulfilling certain conditions) offering data centre services to customers through ‘specified data centres’ to receive tax holidays until 31 March 2047
  - To users located outside India
  - To users located in India through an Indian reseller entity
- Specified data centres to be notified, owned and operated by the Indian company
- Related entities providing data centre services from India to get a safe harbour of 15% on the cost

Real estate and Infra (2/4)

Rationalisation of MAT provisions

Particulars	Domestic Companies continuing under old regime	Domestic Companies opting for new regime
Relevant tax year (1 April 2026 onwards)	• MAT @ 14%* (if higher than regular tax); reduced from earlier 15%* • This will be the final tax and no new MAT credit from 1 April 2026	• MAT - Not Applicable
Accumulated MAT credit (upto 31 March 2026)	• No credit available	• Credit available for set-off upto 25% of tax liability for the relevant tax year • Remaining MAT credit is allowed to be carried forward for the residual period (upto 15 years)

- Refer ensuing slide for a numerical illustration

*plus surcharge and cess

Real estate and Infra (3/4)

Numerical illustration

Tax payable under	Pre-budget		Post-budget	
	Old regime Normal tax > MAT	New regime -	Old regime Normal tax > MAT	New regime -
Taxable income under normal provisions	1,000	1,000	1000	1,000
Book profit under MAT provision	900	-	900	-
Tax computation				
Under normal provisions	300	220	300	220
Under MAT provisions	135	-	126	-
Higher of (a) and (b)	300	220	300	220
Less: MAT credit	(165)	-	-	(55)
Tax payable	**135**	**220**	**300**	**165**
MAT credit available for set-off in future	**35**	**-**	**200**	**145**
			Available only on switching to new regime	**Set-off available only to the extent of 25% of normal tax**

For the purpose of the above illustration, the following is assumed:

- MAT credit available as on 31 March 2026 is INR 200, and
- Cash and distributable profits available amount to INR 1,000.

Real estate and Infra (4/4)

Numerical illustration

Tax payable under	Pre-budget			Post-budget		
	Old regime Normal tax > MAT	New regime -	% ↑/(↓)	Old regime Normal tax > MAT	New regime -	
Implication for SPVs under REITs or InvITs						
Distribution of cash as dividend (post tax at SPV level)	865	780		700	835	
% holding in the REIT						
Resident	49%	49%		49%	49%	
Non-resident	51%	51%		51%	51%	
Tax on dividend in the hands of unitholders (resident) at 30%	-	115		-	123	
Tax on dividend in the hands of unitholders (non-resident) – assumed at 15% under treaty	-	60		-	64	
Net cash in the hands of unitholder (resident)	**424**	**268**	**-58%**	**343**	**286**	**-20%**
Net cash in the hands of unitholder (non-resident)	**441**	**338**	**-30%**	**357**	**362**	**1.4%**
Total net cash	**865**	**606**		**700**	**648**	

Banking and Insurance

Proposals related to cooperative society banks and non-life insurance companies

- No tax to be deducted on interest income other than interest on securities paid or credited to any cooperative society engaged in carrying on the business of banking (including a cooperative land mortgage bank)
- For insurance companies carrying on business other than the life insurance business, deduction for disallowances made on account of non-deduction or deposit of TDS to be allowed in the year in which TDS has been deposited

IFSC

Tax holiday period extended*

- **Units in IFSC** – Increased to 20 consecutive years out of 25 years, from the year of obtaining permission or registration (existing 10 out of 15 years); and
- **Offshore Banking Unit** – Increased to 20 consecutive years (existing 10 consecutive years) from the year of obtaining permission or registration
- No deduction is allowed to new units commencing operations on or after 1 April 2026 formed through splitting up, reconstruction, reorganisation or transfer of an existing business

Rationalisation of tax rate

- Business income for non-tax holiday period – Taxed at **15%**

Exemption for transfer of aircraft or ships

Tax holiday on transfer of aircraft or ship by eligible IFSC unit is also extended to 20 consecutive years out of 25 years from the year of obtaining permission or registration

Deemed dividend provisions

Deemed dividend exemption for GTC is restricted, by requiring the counterparty group entity to the GTC to be located in a country or territory outside India as may be notified by the CG

Litigation and Compliances (1/3)

01 Tax returns

- **Revised Return** - Time limit is extended from 9 months to 12 months from the end of the relevant FY, subject to a fee of upto INR 5,000
- **Updated Return** -
  - Allowed reporting reduction in losses as compared to the loss claimed in the original return of income;
  - Filing of updated return of income allowed pursuant to issuance of reassessment notice, subject to payment of an additional 10% of the aggregate tax and interest over and above the tax payable on account of updated return of income. No penalty for under-reporting or misreporting will be imposed on the income reported in such updated return of income

02 Clarification related to tax proceedings

- Reassessment notice issued by the AO shall be valid; issuance through NaFAC is not mandatory
- Normal assessment time limits do not apply to assessments referred to DRP. Instead, such assessments must be completed within the specific time limit prescribed for DRP cases
- Non-quoting of a computer-generated DIN shall not render the assessment invalid
- Penalty orders for under-reporting or mis-reporting of income is to be included in the draft assessment / assessment / reassessment order passed on or after 1 April 2027
- TPO's order must now be passed within 60 days before the assessment time-bar, with clear statutory cut-off dates depending on the relevant assessment deadline. (retrospectively w.e.f. 1 June 2007). Similarly, TPO to pass an order at least 1 month before the month in which the assessment time limit expires under the ITA, 2025

03 Relaxation of interim tax payment

- Interim payment pending appeal before CIT(A) reduced to 10% of the base tax demand, from the earlier 20% of the base tax demand plus applicable interest

Litigation and Compliances (2/3)

04 Related to tax, interest and penalty in certain cases

Tax and penalty rationalization on Unexplained items

- Tax on unexplained credits, investments, assets, expenditure, etc. reduced from 60% to 30%
- The earlier 10% penalty on tax is abolished; such unexplained items shall now be subject to penalty for mis-reporting of income

Immunity from penalty – extended to mis-reporting

- General mis-reporting cases: Immunity from penalty available on payment of additional 100% of tax
- Mis-reporting involving unexplained items: Immunity available on payment of additional 120% of tax

Relaxation on interest on late payment of penalty

- Interest on late payment of penalty shall be levied only after the date of:
  - Tribunal order – in cases involving DRP; or
  - CIT(A) order – in all other cases

05 Prosecution

- Prosecution for defaults such as failure to deposit TDS/TCS, wilful tax evasion, failure to file return etc., has been reduced
  - Maximum imprisonment reduced from 7 years to 6 months / 2 years (depending on the amount of default)
  - Rigorous imprisonment replaced with simple imprisonment
- No imprisonment where the amount of default does not exceed INR 1m

Litigation and Compliances (3/3)

06

Black Money Act

Disclosure scheme

- The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 is introduced for declaration of:
  - Undisclosed foreign assets; and
  - Foreign-sourced income relating to past years up to 31 March 2026
- Tax and penalty – assets/income up to INR 10m:
  - Tax at 30% of FMV of foreign assets/30% of foreign income; and
  - Penalty at 100% of tax
- Partial disclosure relief: Where foreign income is offered to tax but related foreign assets up to INR 50m remain undisclosed, a fee of INR 0.1m shall apply

Prosecution relief: Prosecution provisions to not apply under the Black Money Act for non-disclosure of foreign assets (other than immovable property) not exceeding INR 2m (retrospectively w.e.f. 1 October 2024)

Transfer Pricing

Rationalisation of Safe Harbour Regime

- For applicability of SHR, IT, ITeS, KPO and contract R&D services (software development services) consolidated under 'IT Services' category
  - **Margin:** Uniform margin of 15.50%;
  - **Threshold for SHR:** Increased to INR 20bn;
  - Approval Process: Automated rule-based approval without any examination and approval by the AO;
  - **Time period:** SHR can be opted for five years for IT services at the taxpayer's discretion;
- The scope of SHR is expanded to cover provision of data centre services by eligible taxpayers on cost plus 15%
- Detailed SHR rules are awaited

Bringing Certainty – Amendments to APA rules

- Unilateral APAs for IT services to be fast-tracked, with a target to conclude within two years (extendable by six months upon request);
- The facility to file modified returns in line with an APA is now extended to AEs whose income is impacted by the APA.

Fees on delay of filing Form 3CEB

- **Form 3CEB (fees on delay):** Now mandatory and not at AO's discretion – INR 50,000 for delay up to one month, capped thereafter at INR 0.1m

06 Indirect Tax Proposals

Indirect Tax Proposals

GST amendments

- **Intermediary services (e.g. brokers, investment bankers, AIF distributors):**
  - **Export:** For cross-border intermediary services, the place of supply to be the recipient's location, enabling Indian intermediaries to claim zero rating benefits (as against tax being paid earlier)
  - **Import:** Indian recipients of such cross-border intermediary services to pay GST under reverse charge (as against no tax being paid earlier).
  - Effective on presidential assent to the Finance Act
- **Post-sale discount provisions simplified:** The earlier requirement to link post-sale discounts to pre-existing agreements is removed; now credit notes can be issued for discounts, provided the recipient reverses the input tax credit accordingly (effective date to be notified separately).
- **Refund process changes:** Benefit of provisional refunds are now extended to cases involving inverted duty structures (effective date to be notified separately).
- **Appeals and dispute resolution:** Pending constitution of the National Appellate Authority, the government is empowered to entrust existing tribunals to hear certain GST appeals (effective date: 1 April 2026)

SEZ

As a one-time special measure, eligible manufacturing units in SEZs are permitted to sell goods to DTAs at concessional rates of Customs duty, within a prescribed proportion of their exports, subject to conditions (details awaited)

07 Glossary

Glossary

Abbreviation	Particulars
AE	Associate Enterprises
AIF	Alternate Investment Fund
AO	Assessing Officer
APA	Advance Pricing Agreement
AUM	Asset Under Management
CBDT	Central Board of Direct Taxes
CDSCO	Central Drugs Standard Control Organisation
CDSO	Central Drugs Standard Control Organisation
CG	Central Government
CIT(A)	Commissioner of Income-tax (Appeals)
CPSE	Central Public Sector Enterprises
DIN	Document Identification Number
DRP	Dispute Resolution Panel
DTA	Domestic Tariff Area
FEMA	Foreign Exchange Management Act, 1999
FMV	Fair Market Value
FPI	Foreign Portfolio Investor
FS	Financial Services
FY	Financial Year
GDP	Gross Domestic Product
GFCI	Global Financial Centre Index
GIFT City	Gujarat International Finance Tec-City
GNPA	Gross Non-Performing Assets
GST	Goods and Service Tax

Abbreviation	Particulars
GTC	Global Treasury Companies
GVA	Gross Value Addition
HUF	Hindu Undivided Family
ICAI	The Institute of Chartered Accountants of India
ICDS	Income Computation and Disclosure Standards
ICSI	The Institute of Company Secretaries of India
IFSC	International Financial Services Centre
IFSCA	International Financial Services Centres Authority
IMF	International Monetary Fund
Ind AS	Indian Accounting Standards
InvIT	Infrastructure Investment Trusts
IPO	Initial Public Offer
ISM	India Semi-Conductor Mission
IT	Information Technology
ITA, 2025	Income-tax Act, 2025
ITeS	Information Technology Enabled Services
KPO	Knowledge Process Outsourcing
MAT	Minimum Alternate Tax
MCA	Ministry of corporate Affairs
MSME	Micro, Small and Medium Enterprises
NBFC	Non-Banking Financial Company
NFAC	National Faceless Assessment Centre

Abbreviation	Particulars
OFS	Offer for Sale
PIS	Portfolio Investment Scheme
PROI	Person Resident Outside India
R&D	Research and Development
RCM	Reverse Charge Mechanism
REIT	Real Estate Investment Trusts
SCB	Scheduled Commercial Bank
SEBI	The Securities and Exchange Board of India
SEBI Buyback Regulations	Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018
SEZ	Special Economic Zone
SHR	Safe Harbour Regime
SME	Small and Medium-sized Enterprises
SPV	Special Purpose Vehicle
STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number
TCS	Tax Collected at Source
TDS	Tax Deduction at Source
TDS	Tax Deducted at Source.
TP	Transfer Pricing
TPO	Transfer Pricing Officer
TRED	Trade Receivables Discounting Systems
Tribunal	Income Tax Appellate Tribunal
VC	Venture Capital

Thank you

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