**Analysing Loud Hits & Quiet Misses in the Fine Print of the Finance Bill 2026**

The Finance Bill, 2026 proposes 22 amendments to the Income-tax Act, 1961 (ITA 1961) and as many as 87 amendments to the Income-tax Act, 2025 (ITA 2025). These changes span a wide canvas, covering legacy jurisdictional issues often characterised as hyper-technical by the Revenue, reassessment mechanics, return filing architecture, penalty and prosecution, non-profit organisations, tax deduction and collection mechanisms, capital gains, buyback of shares, unexplained income, minimum alternate tax, disclosure and reporting of foreign assets and income and the safe harbour relaxations in transfer pricing regime.

The sheer number of amendments proposed to the Income-tax Act, 2025, even before it becomes operational from 1 April 2026, has been viewed in some quarters with concern. From a purely optical standpoint, frequent amendments to a new statute may appear unsettling. Yet, there is a more pragmatic way of viewing this development. The Finance Bill, 2026 represents the last statutory opportunity for course correction before the new law is put into full operation. Timely identification and correction of drafting gaps, structural asymmetries, and transitional frictions at this stage may well reduce far greater uncertainty and litigation once the Act begins to operate. In that sense, while the optics of extensive amendment may appear uncomfortable, the practical upside lies in enabling the new Act to commence on a cleaner and more workable footing.

Seen in this context, the Finance Bill, 2026 assumes a significance that goes well beyond its numerical provisions. It is positioned as a transitional instrument in India's direct tax reform journey, with several amendments aimed at simplification, compliance ease, and proportional enforcement. At the same time, a closer reading reveals that alongside these visible "loud hits" lie a number of "quieter issues" embedded in the fine print, whose implications may unfold only over time. Some amendments clearly strengthen the architecture of the Income-tax Act, 2025, while others raise questions of balance, design, and long-term impact.

This article attempts a balanced analytical examination of some of the more consequential direct tax proposals in the Finance Bill, 2026, highlighting meaningful improvements while also drawing attention to lesser-discussed tensions and omissions that merit consideration beyond the immediate Budget narrative.

**(1) A Clean Slate for the New Act, but Retrospective Turbulence under the Old**

One of the significant objectives of the Finance Bill, 2026 appears to be to legislatively neutralise a series of recent judicial setbacks faced by the Revenue on foundational procedural issues. These include the controversy over jurisdiction between the Jurisdictional Assessing Officer (JAO) and Faceless Assessment Units (FAO) in reassessment proceedings, the annulment of assessments for technical lapses in Document Identification Numbers (DIN), and the interplay of time barring assessment completion deadlines in Dispute Resolution Panel (DRP) and Transfer Pricing related line of cases dealing with jurisdictional and procedural infirmities.

In the Income tax Act, 1961, clarifications are introduced to sections 147, 148, and 148A to state that the power to conduct pre assessment enquiry and issue reassessment notices always vested with the jurisdictional Assessing Officer and not with the National Faceless Assessment Centre or its assessment units. This clarification is inserted notwithstanding judicial decisions and is made retrospective from 1 April 2021.

Correspondingly, the Income tax Act, 2025 incorporates this principle prospectively by clearly demarcating reassessment initiation powers under sections 279 and 280, thereby ensuring that the new law begins with unambiguous jurisdictional clarity.

The insertion of a new section 147A in ITA 1961 with retrospective effect raises deeper constitutional concerns, as retrospectivity is more defensible when clarifying existing provisions rather than introducing new ones.

Similarly, section 292B of the Income tax Act, 1961 is amended retrospectively from 1 October 2019 to clarify that assessments shall not be invalid merely due to defects relating to computer generated document identification numbers, provided the assessment is otherwise traceable and compliant. A parallel provision is built into the Income tax Act, 2025 to avoid repetition of DIN related litigation in the new regime.

Similarly, altogether new sub-sections (4A), (4B), (13A) and (13B) in section 144C of ITA 1961 with the wordings, *"and shall be deemed to have been inserted with effect from 1st October 2009..".*

It is well settled through judicial pronouncements of the hon'ble Supreme Court of India that even *Explanations*, though often couched in ostensibly clarificatory language, are not granted a blanket presumption of retrospective operation. The hon'ble Apex Court has consistently emphasised that the substance, effect, and impact of the provision must be examined to determine whether it merely explains an existing law or, in reality, alters rights, obligations, or liabilities. Where an Explanation is found to introduce a substantive change, retrospectivity is ordinarily denied, notwithstanding the legislature's choice of form or label.

Against this settled doctrinal backdrop, the approach adopted in the Finance Bill, 2026 marks a significant doctrinal escalation. The Bill does not merely insert Explanations purporting to clarify legislative intent; it goes a step further by introducing *entirely new sections and sub-sections*, accompanied by an explicit legislative deeming fiction that such provisions "shall be deemed to have been inserted" with effect from a back date dating back to as long as 20 years old date. This technique seeks to legislatively manufacture retrospectivity not through interpretation, but through express temporal back-dating of substantive provisions.

The resulting tension is evident. While Parliament undoubtedly possesses the competence to enact retrospective tax legislation, judicial scrutiny has historically intensified where retrospectivity operates harshly, unsettles settled positions, or retroactively fastens new liabilities. It will therefore be jurisprudentially intriguing to see how courts navigate this terrain, particularly whether a legislative deeming clause, by itself, can immunise newly introduced substantive provisions from the traditional tests applied to retrospectivity, or whether courts will continue to examine the real nature, effect, and proportionality of such back-dated insertions through the prism of fairness, reasonableness, and constitutional limits.

In the Income-tax Act, 2025, this objective is pursued through clear and prospective drafting. The relevant provisions operate with effect from 1 April 2026 and unambiguously allocate jurisdiction, validate procedural architecture, and insulate assessments from hyper-technical challenge. To that extent, the new Act is set to commence on a clean and stable footing.

The difficulty arises in the manner in which the same objective is sought to be achieved under the Income-tax Act, 1961. The corresponding amendments are framed as retrospective Explanations, often introduced with sweeping non obstante language intended to dilute or override recent High Court and even Supreme Court decisions. While legislative symmetry between the two Acts is understandable, the retrospective route adopted in the existing law carries an inherent litigation risk.

The Supreme Court has repeatedly cautioned that legislative labelling is not determinative of retrospectivity. In *Virtual Soft Systems Ltd. v. CIT [TS-36-SC-2007-O]* the Apex Court held that even an amendment described as clarificatory does not automatically operate retrospectively if it substantively alters the law. This principle was reaffirmed in *Union of India v. Martin Lottery Agencies Ltd. [TS-5016-SC-2009-O]* where the Court ruled that an Explanation introducing a new concept or widening the tax net cannot be applied retrospectively merely by being described as "for the removal of doubts". In *Sedco Forex International Drill Inc. v. CIT [TS-14-SC-2005-O],* the Apex Court reiterated that substance, not linguistic form, governs retrospectivity.

Against this settled jurisprudence, the retrospective amendments to the 1961 Act are unlikely to deliver the certainty the Executive seeks. While the Income-tax Act, 2025 secures prospective clarity from 1 April 2026, the attempt to retrospectively neutralise judicial verdicts under the existing Act may well prolong, rather than close, the chapter of litigation.

The Finance Bill, 2026 thus achieves forward-looking certainty, but at the price of backward-looking contestability.

**(2) Supporting the IT Sector as a Growth Engine: Simplification with a Wider Transfer Pricing Net**

The Finance Bill, 2026 takes a clear and affirmative step towards supporting India's information technology sector by rationalising the safe harbour framework for IT-related services. Software development services, IT-enabled services, knowledge process outsourcing, and contract R&D services, which are closely interlinked in commercial reality, are now proposed to be consolidated under a single category of "Information Technology Services". A uniform safe harbour margin of 15.5 percent is prescribed for all such services, replacing fragmented classifications and margins that often led to disputes.

The threshold for availing the safe harbour has also been significantly enhanced from ₹300 crore to ₹2,000 crore of international transactions. This expansion meaningfully broadens the universe of mid-sized and large IT service providers eligible for certainty. Equally significant is the shift to an automated, rule-driven approval process, removing the need for discretionary examination by tax officers. Once opted for, the safe harbour can be continued for a period of five consecutive years at the taxpayer's choice, providing much-needed stability for long-term pricing and business planning.

From a policy perspective, these changes substantially reduce transfer pricing friction in a sector that remains central to India's export economy and employment generation. They also align with global best practices by prioritising certainty over prolonged benchmarking litigation.

However, this relief must be viewed alongside a parallel and less visible development in the Income-tax Act, 2025. While the transaction-value threshold for safe harbour has been liberalised, the anterior gateway condition for transfer pricing applicability, that is, the definition of Associated Enterprises under section 162 of ITA 2025, has been significantly broadened. In particular, the incorporation of the "common participation" concept into section 162(1)(a)(i), without the detailed deeming conditions that existed under section 92A(2) of the 1961 Act, introduces an open-ended and subjective element.

Under the earlier regime, common participation by the same persons was circumscribed by thirteen specific statutory tests. Under the new framework, AE status may arise wherever the same persons are said to participate in management, control, or capital of two enterprises, without any statutory guidance on the degree, nature, or materiality of such participation. This expansion increases the population of relationships that could be characterised as associated enterprises, potentially pulling more transactions into the transfer pricing net at the threshold stage itself.

In this context, while the safe harbour regime for IT services has been substantially liberalised at the back end, the widened and subjective AE definition at the entry level introduces a countervailing uncertainty. The net benefit of the reform will therefore depend on how narrowly and consistently the "common participation" test is interpreted in practice. Without administrative restraint or further clarification, the comfort offered by higher safe harbour thresholds may be diluted by increased disputes on whether an AE relationship exists at all.

Taken together, the amendment reflects a pro-growth intent for the IT sector, but also underscores the importance of coherence between substantive relief and definitional architecture in transfer pricing law.

**(3) Foreign Assets of Small Taxpayers Disclosure Scheme, (FAST-DS) 2026: A Structured Exit for Legacy Non-Compliance**

The Finance Bill, 2026 introduces the Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 as a one-time, time-bound compliance window for resident taxpayers, including those who are presently non-resident or not ordinarily resident but were residents when the foreign income accrued or the foreign asset was acquired. The scheme is premised on the recognition that a significant share of non-disclosure under the Black Money Act, 2015 arises from legacy or inadvertent lapses rather than deliberate concealment.

The scheme covers three categories. First, undisclosed foreign income that ought to have been taxed in India. Second, undisclosed foreign assets where the source of investment is unexplained. Third, specified foreign assets acquired either during non-resident status or from income already taxed in India, but not reported in the relevant return schedules. Eligibility is capped by monetary thresholds. In cases of undisclosed foreign income or unexplained foreign assets, the aggregate value must not exceed ₹1 crore as on 31 March 2026. In cases of explained but unreported foreign assets, the value threshold is ₹5 crore.

The payment mechanism is differentiated. Where undisclosed foreign income or unexplained foreign assets are declared, the declarant is required to pay tax at 30 percent of the value, together with an additional amount equal to 100 percent of such tax, resulting in a total outgo of 60 percent. Where the foreign asset is explained but merely not reported, a flat fee of ₹1 lakh is payable, subject to the value threshold. Importantly, where the same asset was not disclosed across multiple years, the fee is chargeable only once in the first year of non-disclosure.

Declarations are to be made electronically within the notified period. The tax authority is required to determine the amount payable within one month, with payment to be made within two months, extendable by a further two months with interest. Upon payment, a conclusive order is issued granting immunity from further tax, penalty, and prosecution under the Black Money Act in respect of the matters declared.

The scheme expressly excludes cases involving proceeds of crime or cases where proceedings under the Black Money Act have already concluded, and safeguards are built in to void declarations involving misrepresentation or suppression of facts.

However, a justifiable concern warrants attention, from the asymmetrical application of this amnesty scheme arising from the exclusion of cases where assessment proceedings under the Black Money Act have already been completed. Taxpayers whose assessments have culminated in demand and penalty, but whose matters are pending in appeal, are denied access to the scheme. This creates an uneven relief landscape. Two taxpayers with identical factual profiles may receive radically different outcomes solely based on the procedural stage at which their case presently rests. Extending the scheme to cover pending appellate proceedings, at least where recovery has not attained finality, would promote parity and reduce prolonged litigation without compromising enforcement against serious offenders.

**(4) Using Minimum Alternate Tax (MAT) Framework for a Switch to New Corporate Tax Regime**

The Finance Bill, 2026 undertakes a structural recalibration of the Minimum Alternate Tax (MAT) regime under section 206 of the Income tax Act, 2025, clearly positioning MAT credit as an incentivizing mechanism for pushing a switch to the new taxation regime (with 22% corporate tax rate) in case of corporate taxpayers.

A critical policy change is introduced in relation to utilisation of accumulated MAT credit. The Budget now permits set off of MAT credit only in cases where a corporate entity that has continued under the old regime subsequently opts to shift to the new tax regime in the tax year 2026-27. In such cases, MAT credit may be utilised in the new regime, subject to prescribed caps.

This addresses what had become the principal deterrent for many corporate taxpayers who had not yet transitioned to the new regime. The inability to utilise accumulated MAT credit had effectively locked several companies into the old regime despite the broader policy intent of gradual migration.

However, this otherwise well intended measure results in an unintended asymmetry. Corporate entities that had already shifted to the new regime in earlier years were required, under the then existing framework, to forgo their entire accumulated MAT credit at the time of transition. These early adopters now find themselves placed at a relative disadvantage compared to companies that deferred the switch and are now permitted to carry and utilise their MAT credit.

From a policy equity perspective, this imbalance deserves attention. A balanced solution would be to provide a one-time window allowing such early adopters also to claim and utilise their accumulated MAT credit, subject to the same caps and conditions applicable to late switchers. Such a measure would preserve the integrity of the transition framework while ensuring that compliance foresight is not retrospectively penalised.

**(5) Rationalisation of Tax Rate and Penalty on Undisclosed Income: Relief in Form, Rigour in Substance**

The Finance Bill, 2026 proposes to reduce the tax rate under section 195 of the Income-tax Act, 2025 on incomes referred to in sections 102 to 106, such as unexplained credits, unexplained investments, unexplained assets, unexplained expenditure, and hundi transactions, from 60% to 30%. Viewed in isolation, this appears to be a significant softening of an otherwise punitive regime.

However, this apparent relief becomes less persuasive when examined alongside the accompanying restructuring of the penalty framework. Under the existing law, unexplained income attracts tax at sixty percent, coupled with a penalty under section 443 amounting to 10% of the tax payable. The effective tax burden under the current framework therefore works out to approximately 66-70% of the income.

Under the proposed amendments, the standalone penalty under section 443 is proposed to be subsumed into the misreporting regime under section 439. Where income under sections 102 to 106 is determined by the Assessing Officer and not voluntarily disclosed, an additional income-tax liability amounting to 120% of the tax payable on the mis-reported income is prescribed. As a result, while the headline tax rate is reduced to 30%, the effective burden in such cases escalates sharply to 120% of the income, depending on the manner of settlement and application of the misreporting provisions.

The theoretical safeguard that no penalty will be levied where such income is voluntarily disclosed in the return also warrants caution. Incomes falling under sections 102 to 105 are, by their very nature, unexplained. Expecting voluntary disclosure at the return filing stage presupposes an ability and willingness to concede unexplained receipts upfront, which in most real-world situations is impractical. Consequently, the pathway of voluntary compliance is more illusory than real for this category of income.

**(6) Penalty for Under Reporting & Mis-Reporting of Income: Administrative Finality Versus Jurisprudential Safeguards**

The Finance Bill, 2026 significantly recasts the penalty and prosecution framework with the stated objective of reducing multiplicity of proceedings and providing earlier certainty to taxpayers. Penalty for under reporting and misreporting of income is proposed to be imposed as part of the assessment order itself, interest consequences are deferred in specified cases until appellate resolution, and prosecution provisions, including under the Black Money law, are recalibrated to exclude minor and inadvertent defaults from criminal sanction.

Section 274 of the Income tax Act, 1961 and the corresponding provisions in the Income tax Act, 2025 are amended to provide for imposition of penalty for under reporting and misreporting of income under section 270A as part of the assessment order itself.

Section 220(2) is amended to defer levy of interest until disposal of appeal by the Commissioner of Income tax Appeals or the Appellate Tribunal, as applicable.

From an administrative standpoint, this consolidation offers clear advantages. It reduces prolonged uncertainty, eliminates parallel proceedings extending over several years, and provides taxpayers with upfront clarity on their overall exposure. The rationalisation of prosecution thresholds also reflects a move towards proportional enforcement, reserving criminal consequences for more serious and deliberate non compliance.

At the same time, the approach carries a doctrinal trade off. Indian tax jurisprudence has consistently treated assessment and penalty as distinct processes, requiring independent application of mind and satisfaction as to culpability. By embedding penalty within the assessment order, the amended framework risks blurring this settled distinction and may dilute procedural safeguards rooted in principles of natural justice.

Ultimately, while the amendments reflect a legitimate pursuit of efficiency and finality, their long-term equilibrium between administrative convenience and taxpayer protection will depend on judicial interpretation and the manner of implementation.

**(7) Recalibrating Prosecution under the Income-tax Act, 2025: Proportionality with a Wider Net**

The Finance Bill, 2026 substantially revises the prosecution framework under sections 475 to 478 and section 494 of the Income-tax Act, 2025 by partially decriminalising certain offences, fully decriminalising others, and restructuring the nature and duration of punishment.

A foundational change is the substitution of rigorous imprisonment with simple imprisonment, coupled with a sharp reduction in maximum punishment. For most offences, the maximum term is reduced from seven years to two years, while punishment for subsequent offences is capped at three years.

The Bill also introduces a new graded punishment framework linked to the quantum of tax involved. Where the tax exceeds ₹50 lakh, the maximum punishment is two years' imprisonment. Where the tax exceeds ₹10 lakh but does not exceed ₹50 lakh, imprisonment is capped at six months. Where the tax does not exceed ₹10 lakh, punishment is restricted to fine alone. This replaces the earlier single threshold of ₹25 lakh.

This restructuring has a dual effect. On one hand, it significantly softens criminal exposure for high-value cases by capping imprisonment at two years. On the other hand, it expands the prosecutorial net by bringing within the graded punishment framework cases involving tax amounts between ₹10 lakh and ₹25 lakh, which earlier fell below the prosecution threshold. While imprisonment in this newly covered band is limited to six months, the change nonetheless increases the range of cases statutorily exposed to criminal proceedings.

**(8) Rebalancing the Taxation of Buyback of Shares: Course Correction with Residual Uncertainty**

The Finance Bill, 2026 undertakes a significant course correction in the taxation of share buybacks. Section 2(40)(f) of the Income-tax Act, 2025, which classified buyback consideration as dividend income, is proposed to be omitted with effect from 1 April 2026. Buyback proceeds are consequently brought back within the capital gains framework, with cost of acquisition allowed under section 69 of the Income-tax Act, 2025.

Under the revised structure, non-promoter shareholders are taxed under the normal capital gains regime, with long-term capital gains taxable at 12.5 percent. For promoter shareholders holding more than ten percent shareholding, an additional levy is introduced so that the effective tax rate works out to twenty two percent for corporate promoters and thirty percent for non-corporate promoters. The Explanatory Memorandum justifies this differential treatment on the basis of the distinct position of promoters in influencing buyback decisions.

While the substantive correction restores conceptual alignment between buybacks and capital gains taxation, it also highlights a deeper issue of policy instability. As recently as July 2024, the Finance (No. 2) Act, 2024 amended the law to tax buyback proceeds as dividend income with effect from 1 October 2024, overturning a long-standing capital gains framework. The reversal of that position within a short span, now through the Finance Bill, 2026, amplifies the uncertainty created by frequent shifts in the tax treatment of corporate distributions.

While this amendment restores conceptual consistency by aligning buybacks with capital gains taxation, it does not fully address all practical inequities. During the period from October 1, 2024 till 31$^{st}$ March 2025, the gross buyback proceeds in the hands of retail investors and salaried taxpayers got taxed as their dividend income, without allowance of any deduction, including their genuinely incurred expenditure of cost of acquisition of such shares. With no other capital gains in the relevant year, such deemed capital losses (cost of acquisition) became redundant and of no use for such category of shareholders. The present relaxation does not specifically address this category of taxpayers, who may continue to face economic taxation without meaningful utilisation of their cost base.

Therefore, such legislative oscillation has practical consequences. Buyback decisions are typically long-horizon corporate actions involving regulatory approvals, shareholder expectations, and capital allocation planning. Repeated changes in tax characterisation within short intervals complicate modelling, distort shareholder outcomes, and undermine predictability in corporate tax policy.

**(9) Rationalisation of the Non-Profit Organisation Regime: Substantive Relief with Drafting Ironies**

The Finance Bill, 2026 introduces a meaningful course correction in the regulation of non-profit organisations under the Income-tax Act, 2025.

Section 351 of the Income-tax Act, 2025, which earlier treated commercial receipts exceeding twenty percent of total receipts as a specified violation warranting cancellation of registration, is amended to remove such commercial activity from the cancellation triggers. This restores alignment with the settled jurisprudence under the Income-tax Act, 1961, where incidental commercial activity did not, by itself, invalidate charitable status. The amendment addresses concerns that had been flagged in the earlier published 'pre-budget special' article of the author, in Taxsutra.

The Bill also inserts a new section 354A to provide that the merger of a registered non-profit organisation with another registered non-profit organisation having similar objects shall not attract tax on accreted income under section 352, subject to prescribed conditions. This provision mirrors the earlier exemption framework under section 12AC of the Income-tax Act, 1961 and prevents tax friction in genuine organisational restructuring within the charitable sector.

Notably, the insertion of section 354A also marks the formal entry of alpha-numeric section numbering in the Income-tax Act, 2025. This development is instructive. One of the stated objectives of the new Act was to simplify section numbering by adopting a purely numerical structure for better readability and optics. The present amendment underscores the practical limitations of that approach. As substantive amendments become necessary, the Legislature has had to revert to alpha-numeric insertions to accommodate new provisions without disturbing the overall structure. The episode illustrates the inherent tension between drafting aesthetics and legislative flexibility.

In addition, section 349 is amended to permit registered non-profit organisations to file belated returns by extending the reference to section 263(4), thereby restoring parity with the earlier law and easing compliance.

Taken together, these amendments deliver substantive relief to the non-profit sector while simultaneously revealing the drafting trade-offs embedded in the architecture of the new Act.

**(10) Rationalisation of the Tax Deduction at Source (TDS) Framework**

The Finance Bill, 2026 undertakes a targeted rationalisation of the tax deduction at source framework with the stated objective of reducing compliance friction, discretion, and repetitive processes.

Section 395 of the Income-tax Act, 2025 is amended to enable electronic filing and processing of applications for lower or nil deduction of tax at source. Instead of routing such applications through the jurisdictional Assessing Officer, taxpayers may now apply electronically before a prescribed authority, subject to specified conditions. This transition to a digital, rule-based mechanism addresses long-standing delays and uncertainty that accompanied the officer-centric certification process, particularly for small and medium taxpayers.

Section 397 of the Income-tax Act, 2025 is also amended to remove the requirement for resident individuals and Hindu undivided families to obtain a tax deduction account number when deducting tax under section 393(2) on purchase of immovable property from a non-resident. PAN-based compliance is made sufficient, correcting a long-standing anomaly where one-time property buyers were required to obtain a TAN solely for a single transaction.

A further but less visible rationalisation is contained in section 397(3)(f) of the Income-tax Act, 2025, which reduces the time limit for correction of TDS returns by deductors to two years from the end of the relevant tax year. This is a substantial departure from the existing six-year correction window under the proviso to section 200(3) of the Income-tax Act, 1961. From an implementation standpoint, this reduction appears both justifiable and pragmatic, particularly in light of the impracticality of running parallel TRACES utilities for the old and new Acts over extended periods.

However, this rationalisation remains only partial. The time limit for passing an order under section 398 of the Income-tax Act, 2025, deeming a person to be an assessee in default for TDS non-compliance, continues to be six years from the end of the relevant tax year, mirroring the legacy framework under section 201(1) and (1A) of the 1961 Act. This asymmetry creates an imbalance, where deductors have a shortened window to correct errors, but remain exposed to prolonged default proceedings. Aligning the time limit under section 398 with the general assessment time frame of three years would better reflect the stated objective of certainty and closure.

Another area warranting attention is the increasing reliance on automated compliance nudges. Recent experiences indicate that system-generated messages often infer the nature or head of income in the hands of deductees solely based on the TDS section under which tax has been deducted by the deductor. Instances have arisen where salaried taxpayers received nudges to revise their return forms from ITR-2 to ITR-3 on the assumption that sale of unlisted shares constituted business income, merely because tax was deducted under section 194Q. Such inferences overlook the settled principle that the character of income in the hands of the recipient is not determined by the TDS provision applied by the payer.

While data-driven nudges are an important compliance tool, their efficacy depends on contextual accuracy. Refinement of the underlying logic is essential to ensure that nudges assist compliance rather than generate avoidable confusion and unwarranted revisions.

Taken together, the TDS amendments reflect a clear intent to streamline compliance and reduce procedural burden. Completing this rationalisation will require closer alignment of limitation periods and more nuanced design of automated enforcement tools, so that system efficiency does not come at the cost of fairness or accuracy.

**(11) Rationalisation of the Tax Collection at Source (TCS) Regime**

The Finance Bill, 2026 also revisits the tax collection at source architecture under section 394 of the Income tax Act, 2025, with a view to rationalising rates and reducing unintended capital blockage.

TCS rates on remittances under the Liberalised Remittance Scheme (LRS) for purposes of education and medical treatment are reduced from 5% to 2% percent, while retaining higher rates for other LRS remittances.

Similarly, the TCS structure applicable to overseas tour programme packages is simplified. The earlier slab-based structure is replaced with a uniform two percent rate without threshold limits, addressing concerns that high TCS rates were distorting consumer behaviour and pushing business towards offshore operators.

At the same time, certain TCS rates on sale of goods such as alcoholic liquor, scrap, coal, lignite, and iron ore are rationalised to bring greater uniformity and reduce arbitrage across categories.

These changes reflect a conscious policy choice to use TCS as an information and compliance tool rather than as a blunt revenue collection instrument. However, beyond rate rationalisation, an unresolved structural mismatch continues to affect foreign asset reporting. TCS is collected on foreign investments and remittances made under the LRS throughout the financial year, including those undertaken in the last quarter between 1 January and 31 March. However, Schedule FA of the return of income requires reporting only of foreign assets acquired up to 31 December of the relevant financial year. This temporal disconnect results in automated system flagging of non-reporting where foreign assets are acquired in the final quarter of the year, despite there being no reporting obligation for such assets in that assessment year.

The consequence is avoidable compliance friction. Taxpayers are confronted with notices or risk flags for alleged non-disclosure, even though the asset in question is statutorily reportable only in the subsequent year's return. While the Finance Bill, 2026 strengthens the use of TCS as an information and compliance tool, the absence of alignment between the timing of TCS collection and Schedule FA reporting continues to generate false positives and unnecessary follow-up.

Addressing this mismatch through a synchronised reporting framework or appropriate system-level validation would materially improve the effectiveness of the TCS regime, ensuring that information-based enforcement does not inadvertently penalise compliant taxpayers.

**(12) Rationalising the Due Date for Employer Deposit of Employee Contributions**

The Finance Bill, 2026 introduces a pragmatic and long-awaited correction in the treatment of employee welfare contributions by employers, an area that had become a persistent source of high-volume litigation. Under section 29(1)(e) of the Income-tax Act, 2025, deduction of employee contributions received by an employer was earlier made conditional upon deposit within the due date prescribed under the relevant labour welfare legislation or contractual arrangements. This rigid linkage resulted in disallowances even where the contributions were ultimately deposited before filing of the return of income.

The proposed amendment rationalises this position by aligning the due date for deposit of employee contributions with the due date for filing the return of income under section 263(1) of the Act. With effect from tax year 2026–27, employee contributions credited by the employer to the relevant fund up to the return filing due date will qualify for deduction.

This change assumes particular significance in the context of the Supreme Court's decision in *Checkmate Services Pvt. Ltd. v. CIT*, which upheld disallowance of employee contributions deposited beyond the statutory due date under welfare laws, notwithstanding deposit before return filing. While that judgment settled the legal position under the Income-tax Act, 1961, it also led to reopening of assessments, fresh additions, and prolonged litigation in a large number of cases involving relatively minor delays and no real income escapement.

The amendment signals a conscious shift away from that rigid framework in the Income-tax Act, 2025, acknowledging that while compliance with labour welfare timelines remains mandatory, delays that are ultimately cured before return filing do not warrant denial of deduction for income-tax purposes.

However, at the same time, the Bill does not clarify the treatment of legacy cases where additions have already been made or assessments reopened on the strength of the *Checkmate* ruling and which are presently pending in appeal. The absence of any transitional or curative provision in this regard leaves uncertainty as to whether such cases will continue to be contested under the old law despite the changed legislative approach under the new Act.

Viewed in this light, the amendment represents a calibrated forward-looking correction, but one that stops short of fully resolving the legacy fallout of settled but harsh jurisprudence. While it promises reduced litigation and greater certainty going forward, the question of relief for pending appellate cases remains open and may require further legislative or administrative clarification to complete the reform.

**(13) Return Filing Architecture and Managed Compliance**

A significant set of amendments under the Finance Bill, 2026 relates to section 263 of the Income-tax Act, 2025, which governs the return filing framework.

The due date for filing returns by non-audit business cases, non-audit partners, and trusts is extended from 31 July to 31 August under section 263(1)(c) of ITA 2025. Parallel amendments are carried out in Explanation 2 to section 139(1) of ITA 1961 to maintain alignment across the two statutes.

Section 263(5) of ITA 2025 is amended to extend the time limit for filing revised returns from nine months to twelve months from the end of the relevant tax year, effectively moving the outer limit from 31 December to 31 March. A graded fee is introduced under section 428 for revised returns filed beyond nine months. Corresponding amendments are made in section 139(5) and section 234I of the Income-tax Act, 1961.

Section 263(6) further liberalises the updated return mechanism by permitting reduction of losses and allowing updated returns even after issuance of reassessment notices under section 280, subject to payment of enhanced additional tax under section 267. Income disclosed through such updated returns is granted immunity from penalty under section 439.

While the extension granted for revised returns is a welcome relief, a notable asymmetry remains. The time limit for filing belated returns under section 263(4) has not been correspondingly extended. Under the existing law, belated returns and revised returns historically shared the same outer time limit, recognising that both are remedial mechanisms intended to correct non-compliance or errors within a reasonable window. The absence of a similar extension for belated returns under the new framework breaks this parity and may operate harshly in cases where returns could not be filed within the original due date for reasons beyond the taxpayer’s control.

From a policy perspective, extending the timeline for revised returns while leaving belated returns constrained creates an uneven compliance landscape. Aligning the timelines under section 263(4) with those under section 263(5) would better reflect the underlying philosophy of managed compliance and reduce avoidable disputes, particularly for small taxpayers who may miss the initial filing deadline but seek to regularise their position within the same financial year.

**Conclusion: Corrections Made, Questions That Remain**

The Finance Bill, 2026 should be seen less as a routine Budget exercise and more as a final round of course correction before the Income-tax Act, 2025 becomes fully operational. It does several things right. It brings much-needed clarity in key areas, eases compliance where the law had become unnecessarily rigid, moderates criminal exposure, and corrects some structural choices that were already beginning to cause friction in practice.

At the same time, not all issues have been resolved with equal care. The reliance on retrospective amendments under the existing Act, uneven treatment of similarly placed taxpayers, and penalty structures that increase effective tax exposure in disputed cases are likely to remain areas of concern. These are not flaws of intent, but of execution and balance.

Ultimately, the Finance Bill, 2026 will be judged less by the number of amendments it carries and more by how those changes play out on the ground once the new Act comes into force. Much will depend on whether the administration shows restraint in using retrospective provisions and whether proportionality is respected in applying penalties and prosecution. As a transitional measure, the Bill broadly succeeds in smoothing the shift to the new regime, but the real test will be whether it brings predictability and confidence to taxpayers over time, rather than opening up fresh areas of dispute.

**[This Article authored by our Founder- Shri Mayank Mohanka, FCA, has also been published in Taxsutra]**