

# **Critical Matters**

**in**

# **Finance Act 2026 / IT Act 2025**



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FCA, FCS, FCMA, LL.B, MIMA, DISA, IP

**Shared at**

**ICAI – Sangrur (NIRC)**

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# CHANGES BY FINANCE ACT 2026

# TAX RATES

- **S. 195** – (s. 115BBE) – 60% to 30%
  - *Surcharge of 25% continues.. Effective rate 39%*
  - *Omit penalty u/s 443*
  - *Subsume this penalty in s. 439(11) - (misreporting : Penalty - 200% )*
  - *Clause (g) inserted in s. 439(11) – income referred to in s. 195(b)*
    - **Penalty only if AO assess**

# TAX RATES

- **S. 206 – (MAT S. 115JB)**
  - *15% to 14%*
  - *No MAT Credit from Tax Year 2026-27*
  - *No fresh MAT credit in old regime. Old allowed till 15 years if shift to S. 200 (115BAA)*
  - *Those who shift – allowed to extent of 1/4<sup>th</sup> of tax liability for domestic Companies*
  - *Foreign company – full credit*

# TAX RATES – TCS

Sl.N	Nature of receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption.	1%	2%
2	Sale of tendu leaves.	5%	2%
3	Sale of scrap.	1%	2%
4	Sale of minerals, being coal or lignite or iron ore.	1%	2%
5	Remittance under the <b>Liberalised Remittance Scheme</b> of an amount or aggregate of the amounts exceeding ten lakh rupees—	(a) 5% for education or medical treatment; (b) 20% <b>for other than education or medical treatment</b>	(a) 2% for education or medical treatment; (b) 20% for other than education or medical treatment
6	Sale of “overseas tour programme package” including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure.	(a) 5% of amount or aggregate of amounts up to ten lakh rupees; (b) 20% of amount or aggregate of amounts exceeding ten lakh rupees.	2%

# ITRs

- 3 due dates to 4 now – July split to August
  - *B/F losses, but no business income during year*
  - *Trust – Memorandum / section*
  - *From AY 2026-27 itself*
- Revised return with additional fee from January to March
  - *If filing 1<sup>st</sup> time post December, then not belated but updated*
  - *5k/1k vis-à-vis 25%*
  - *From AY 2025-26 itself*

# REVISED ITRs??

## Case 1

DD – 31/7 filed 30/7, revised 31/12

- No late fee

## Case 2

DD – 31/7 filed 30/9

- Late fee – 5k/1k

## Case 3

DD 31/7 filed 30/9, revised 31/12

- Late fee for 30/9 – 5k/1k

## Case 4

DD 31/7 – filed 31/12, revised 31/1

- Late fee 2 times

# UPDATED ITRs

- Now allowed for:
  - *Reduction in losses*
  - *If notice u/s 148 / 280*
    - Can file with addl. 10% tax
    - No return then u/s 148/280

# BUY-BACK – CG FROM 1.4.26

TABLE

Sl. No.	Income	Rate, where the promoter is a domestic company	Rate, where the promoter is other than a domestic company
A	B	C	D
1.	Short-term capital gains referred to in section 196 arising from the transfer of such securities.	2%	10%
2.	Long-term capital gains referred to in section 197 or section 198 arising from the transfer of such securities.	9.5%	17.5%

# BUY-BACK TAX RATES

Type of Gain	Promoter		Non-Promoter
	Domestic Company	Other than Domestic Company	
LTCG	22%	30%	12.5%
STCG	22%	30%	Applicable / Slab rate

## ■ Promoter:

- *Listed Co-Regulation 2(k) of SEBI (Buy-back) Reg.*
- *Other:*
  - S. 2(69) of Companies Act 2013
  - Person who hold directly/indirectly more than 10%

# EXEMPT INCOME

- Compensation amount awarded by Motor Accident Claims Tribunal (MACT) including interest
- Compulsory acquisition of any land under the RFCTLARR Act.
- Exemption for Sovereign Gold Bonds – from original till maturity

# PENALTY / FEE

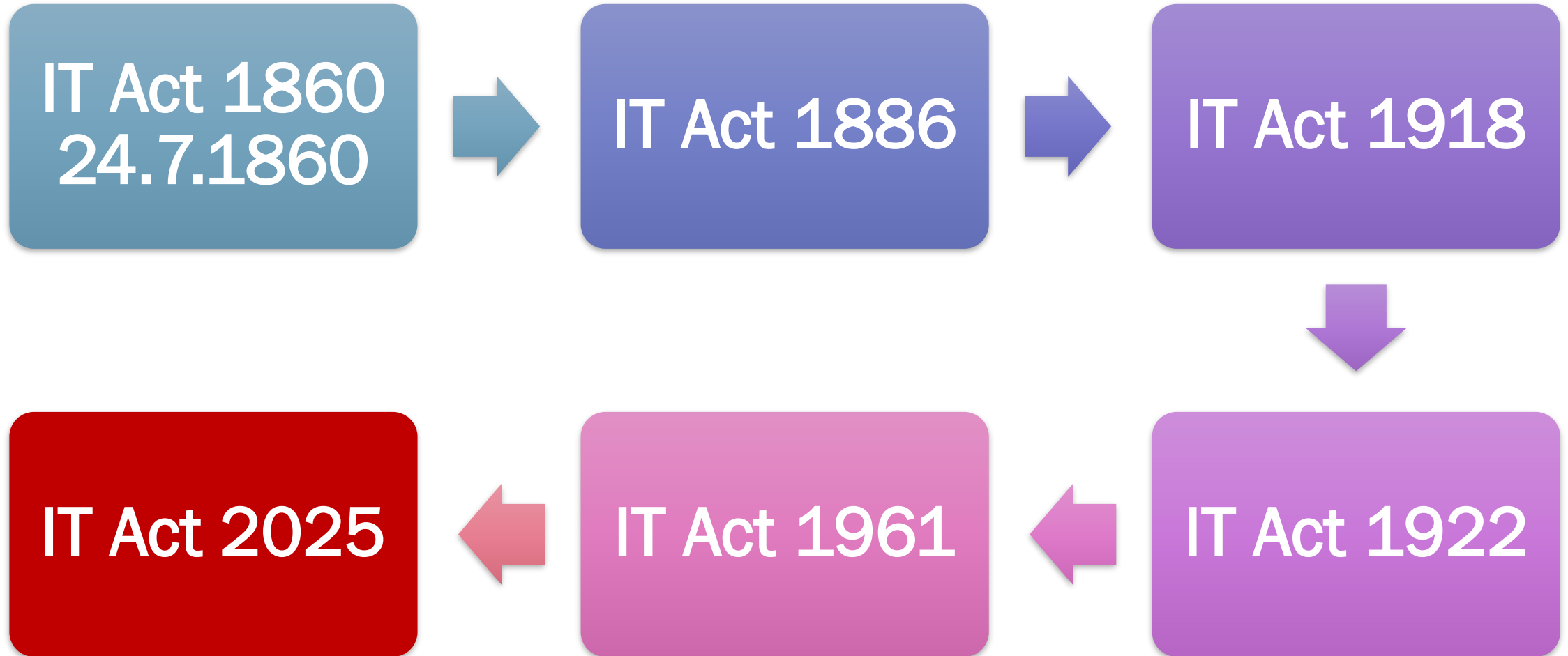
- Tax Audit – Penalty to Fee - graded
- TP Report – Penalty to fee - graded
- SFT – Rs. 200 p.d. Max Rs. 1 L – Penalty to fee
- Misreporting Penalty 100% / 120% if paid with 30 days++
- Penalty order along with assessment Order –  
Interest on penalty only after 1<sup>st</sup> appeal order –  
from 1.4.27

# GENERAL

- No TAN for resident individual / HUF for purchase of residential property from NR w.e.f. 1.10.2026
  - *Rent, etc.??*
  - *NR to NR??*
- Employee contribution to ESI/PF – amendment in s. 29 - allowed if paid till due date u/s 263(1)
- No deduction against dividend income – earlier 20% if interest



# HISTORY OF INCOME TAX IN INDIA





**Tax year**



**Assessment  
Year**

# SECTION 10 (OLD)

Sch II

- To any person – 17 incomes including agriculture

Sch III

- Eligible persons – 42 incomes (Sl. No. 39A to 39D inserted in 2026), including partners, HUF

Sch IV

- Non-Residents, Foreign Co – 17 incomes (Sl. No. 13A to 13C inserted in 2026)

Sch V

- Investment funds, business trusts & unit holders – 8 incomes

Sch VI

- IFSC – 12 incomes

Sch. VII

- Persons Exempt – 48 persons

Salary Related

- No Schedule - gratuity, leave encashment, Voluntary Retirement Scheme, etc in S. 19

# SOME SECTIONS

1961 Act	Related to	2025 Act
35D	Amortisation of preliminary expenses	44
44AD/44ADA/44AE	Presumptive Taxation for Residents	58
44AA	Maintenance of Books	62
44AB	Tax Audit	63
47	Transactions not regarded as transfer	70
50C	Special provision for full value of consideration in certain cases.	78
68	Unexplained Credits	102
269SS / 269T	Taking / repayment of deposits, loans, etc	185 / 188
112A	Tax on LTCG in certain cases	198
115BAC	New Tax Regime	202

# SOME SECTIONS

1961 Act	Related to	2025 Act
115JA to 115JF	MAT & AMT	206
132	Search & Seizure	247
133A	Power of Survey	253
139	Return of Income	263
143	Assessment	270
147	Income Escaping Assessment	279
12A	Application for Registration	332
11 / 12 / 13 / 80G	Charities	334 to 355
246A	Appeals to CIT(A)	357
253	Appeals to ITAT	362
193 to 197A / 206C	TDS / TCS	393 / 394

# SALARIES - DEDUCTIONS

- From S. 16 (1961 Act) to S. 19 now
- Apart from standard deduction, etc. it includes:
  - *Gratuity (Old S. 10(10))*
  - *Commutation of Pension (Old S. 10(10A))*
  - *Workmen Compensation (Old S. 10(10B))*
  - *Leave Encashment (Old S. 10(10AA))*
  - *Voluntary Retirement Scheme (Old S. 10(10C))*
- These deductions are allowed in New Tax Regime too, as per s. 202 (old S. 115BAC).

# CHANGES IN PERQUISITE RULES

S. No.	Related to	2026 Rules	1962 Rules
1	Motor car, which is either EV or its engine capacity is < 1.6 liters & expense met by employer	Rs. 5000 pm + Rs. 3000 chauffeur	Rs. 1800 pm + Rs. 900 chauffeur
2	Motor car where its engine capacity > 1.6 liters & expense met by employer	Rs. 7000 pm + Rs. 3000 chauffeur	Rs. 2400 pm + Rs. 900 chauffeur
3	Motor car, which is either EV or its engine capacity is < 1.6 liters & expense met by assessee.	Rs. 2000 pm + Rs. 3000 chauffeur	Rs. 600 pm + Rs. 900 chauffeur
4	Motor car, where its engine capacity > 1.6 liters & expense met by assessee	Rs. 3000 pm + Rs. 3000 chauffeur	Rs. 900 pm + Rs. 900 chauffeur

# CHANGES IN PERQUISITE RULES

S. No.	Related to	2026 Rules	1962 Rules
5	Free or concessional education facilities for any member of household where education institution is owned and maintained by employer or in any other education institution by reason of hid employment	Cost in similar institution in near locality as reduced by recovery where cost of such education or value per child > Rs. 3k pm	Cost in similar institution in near locality as reduced by recovery where cost of such education or value per child > Rs. 1k pm
6	Interest-free or concessional loan for any purpose made available to employee or member of his household	Nil, for specified diseases, or amt is not exceeding Rs. 2 L in agg.	Nil, if for specified diseases, or amt is not exceeding Rs. 20k in agg
7	Free food and non-alcoholic beverages through paid meal vouchers usable at eating joints only	Not exceeding Rs. 200 per meal	Not exceeding Rs. 50 per meal
8	Value of any gift or voucher or token received by employee or member of his household on ceremonial occasions or otherwise from his employer	Nil if aggregate of such gift, etc. is below Rs. 15000 in aggregate in a tax year	Nil if aggregate of such gift, etc. is below Rs. 5000 in aggregate during PY

# BUSINESS - DEDUCTIONS

- Section 28 now consolidates:
  - *Old s. 30 (Rent, rates, taxes, repairs & insurance for buildings),*
  - *Old s. 31 (Repairs and insurance of machinery, plant and furniture)*
  - *Old s. 38 (Building, etc., partly used for business, etc., or not exclusively used)*

# BUSINESS – DEDUCTIONS – EMPLOYEE WELFARE

- Provisions related to expenses for contributions to PF, Gratuity Fund, Superannuation Fund, etc., were spread across various sections in 1961 Act, such as 40A (7), (9) & 36(1)(iv), (iva), (v) & (va). In 2025 Act, these provisions consolidated under single S. 29.
- It includes:
  - *Contribution towards recog.PF or approved superannuation fund.*
  - *Contribution towards a pension scheme.*
  - *Contribution towards an approved gratuity fund.*
  - *Contribution received from an employee (ESI, PF).*
  - *Non allowability for setting up or formation of, or as contribution to, any fund, trust, company, AOP, BOI, society*
  - *Non- allowability for gratuity unless paid.*

# BOOKS

- Section 62 as compared to Old S. 44AA
- Specified profession - Information Technology and Company secretary professions have been added in the section as specified professions, earlier - notifications.
- Earlier books of accounts were required for assessee, who was engaged in business which was covered u/s 44AD(4) and his TI exceeded the MANCT. Now:
  - *condition of TI exceeding MANCT is not there,*
  - *hence even if an specified assessee is not declaring profits as per presumptive basis and as his income is below MANCT*
  - *consequently tax audit is not required,*
  - *still the assessee would have to prepare its books of accounts.*

# AUDIT / PRESUMPTIVE TAXATION

- Section 58 (Old s. 44AD/44ADA/44AE) r.w.s. 63 (Old S. 44AB)
- Earlier Old S. 44AD was optional, now seems to be mandatory.
- Now not declaring income lower than specified % of profit, and its TI exceeds MANCT, it would require to:
  - *Maintain books of accounts; and*
  - *Get the audit done u/s 63*
- However, u/s 63, condition of TI exceeding MANCT is not mentioned.
- Earlier condition of TI exceeding MANCT was not there for business of plying, hiring or leasing of goods carriage, which is now required in 2025 Act.

# UNEXPLAINED SUMS

1961	Heading	2025	Heading
68	Cash Credits	102	Unexplained Credits
69	Unexplained Investments	103	Unexplained Investment (69 & part of 69B)
69A	Unexplained Money, etc.	104	Unexplained Asset (69A & part of 69B)
69B	<b>Amt. of Investments, etc. not fully disclosed in books of Accounts</b>		
69C	Unexplained expenditure, etc.	105	Unexplained Expenditure
69D	Amt. borrowed or repaid on hundi	106	Amt. borrowed or repaid through negotiable instrument, hundi, etc.

- 'May' replaced with 'Shall' except for S. 69D (as it already had 'shall')

# S. 149 / S. 282

Notice Type	Condition (Likely Income Escaped)	1961 Act (S. 149) Time Limit	2025 Act (S. 282) Time Limit
Show cause / Pre Notice (S. 148A / S. 281)	< Rs. 50 Lacs	Within 3 years from end of AY	Within 4 years from end of Tax year
Show cause / Pre Notice (S. 148A / S. 281)	> Rs. 50 Lacs	Within 5 years from end of AY	Within 6 years from end of Tax year
Reassessment Notice (S. 148 / S. 280)	< Rs. 50 Lacs	Within 3 years 3 months from end of AY	Within 4 years 3 months from end of Tax year
Reassessment Notice (S. 148 / S. 280)	> Rs. 50 Lacs	Within 5 years 3 months from end of AY	Within 6 years 3 months from end of Tax year

# CHARITIES

- 2.50 L ITR for AY 2023-24. They applied Rs 10 L Crs. for charitable & religious purposes in FY 2022-23
- 1961 provisions
  - *Chapter I: Charitable Purpose (S. 2(15))*
  - *Chapter III: S. 10(23C), 11, 12, 12A, 12AA, 12AB, 12AC & 13*
  - *Chapter VIA: Section 80G*
  - *Chapter XII / XIIEB: Sections 115BBC, 115BBI, 115TD, 115TE, 115TF*

# CHARITIES

- **2025 Act – Sections 332 to 355**
  - *Unified term "registered non-profit organization" is used instead of various terms like trust, institution, etc.*
  - *"Registration" replaces "approval"*
  - *All provisions are consolidated in Part B of Chapter XVII under "Special Provisions for Registered NPOs."*
- **Capital gains u/s 11(1A) done away with.**
- **Deemed application under Explanation 1(2) of section 11(1) done away with. Accumulation u/s 11(2) for up to five years continues**

# CHAPTER XVII - PART B

## SPECIAL PROVISIONS FOR REGISTERED NON-PROFIT ORGANISATION

Sub-Part	Heading	Sections
1	Registration	332-333
2	Income of registered non-profit organisation	334-343
3	Commercial activities by registered non-profit organisation	344-346
4	Compliances	347-350
5	Violations	351-353
6	Approval for purpose of deduction under section 133(1)(b)(ii)	354-355

# CHARITIES

- Now only certain persons specified can register – S.332
- Application, duration, validity, etc. all in one table
- Incomes:
  - *Regular income.*
  - *Specified income.*
  - *Income not to be included in regular income.*
  - *Corpus donation.*
  - *Deemed corpus donation*

# TDS

- 65 sections in 1961 Act specifying TDS liabilities, based on payer / payee's status & applicable limits, consolidated into 2 – S. 392/393.
- Now it is a ready-reckoner itself. S. 393 contains tables for:
  - *Sub s. (1) - Payments to Residents – 8 incomes*
  - *Sub s. (2) - Payments to Non-residents – 17 incomes*
  - *Sub s. (3) - Payment to any person – 7 incomes – lottery, 194T..*
  - *Sub s. (4) - No TDS required – 19 Sl. Nos. (exceptions)*
  - *Sub s. (5) - Declaration for no TDS – 15G/H Now Form No. 121*
- UDIN introduced for real-time verification through the ICAI API - Tax audit /15CB.

# TDS - RESIDENTS

S. No.	Nature of Income	1961 Act sections
1	Commission / Brokerage	194-H & 194D
2	Rent	194-I & 194 IB
3	Transfer of Immovable Property	194-IA, 194-IC & 194-LA
4	Income from Capital Market	194K, 194LBA, 194LBB & 194 LBC
5	Interest Income	193 & 194A
6	Contractors, FTS & Professional Services	194C, 194M & 194J
7	Dividend	194
8	Other cases	194-DA, 194Q, 194P, 194R, 194-O & 194S

# TCS

- Provisions related to TCS also consolidated – S. 394.
- It includes one table listing the nature of receipts, monetary thresholds, collectors, and applicable TCS rates.
- Conditions for no collection of TCS are also in it.
- Other Provisions that were scattered across existing Act are now consolidated into independent sections:
  - Certificates (such as Lower Deduction/Collection Certificates) – S. 395
  - Compliance and reporting (filing of statements, etc.) – S. 397
  - Consequences of failure to deduct or collect tax, or failure to pay the deducted/collected tax – S. 398
  - Processing of statements – S. 399

# RELATIVE

- S. 2(94) - expanded to include both maternal as well as paternal lineal ascendant.
  - *Husband,*
  - *Wife,*
  - *Brother,*
  - *Sister*
  - *Any lineal ascendant (maternal as well as paternal)*
  - *Descendant of that individual;*
- Relatives are also defined in ss. 92(5)(g), 355(i) and 515(8) which is much wider than as defined in 2(94).
  - *S. 92(5)(g) (S. 56(2)(x) of 1961 Act), This is also applicable for purposes of GAAR - s. 184(8).*
  - *S. 355(i) - Special provisions for registered non-profit organization.*
  - *S. 515(8) - defining authorized representative & Accountant (CA).*

# RELATIVE

- Relatives defined in ss. 92(5)(g), 355(i) and 515(8):
  1. *spouse;*
  2. *brother or sister;*
  3. *brother or sister of the spouse;*
  4. *brother or sister of either of the parents;*
  5. *any lineal ascendant (maternal as well as paternal) or descendant;*
  6. *any lineal ascendant (maternal as well as paternal) or descendant of the spouse;*
  7. *spouse of the person referred to in 2 to 6*
- Apart from these 3 provisions, term used in the Act would mean as per this subsection, unless specifically defined, like in s. 129(3)(e), which is for the purpose of education loan interest deduction for relative.

# PAN DATA CORRECTION

Form No.	Purpose
PAN CR-01	For Individual – Request for changes or correction in PAN Data
PAN CR-02	For Non-Individual – Request for changes or correction in PAN Data

Vide Order dated 1<sup>st</sup> April 2026 – S. 262(4) read with Rule 158(12)

## **S. 85 (S. 54EC 1961 ACT)**

- 'Capital gain' has changed to 'Long-term capital gain'
- 'Long-term capital asset' has been omitted.
- CIT vs. Ace Builders (P) Ltd. (2006) 281 ITR 210 (Bom) approved in CIT v. Dempo Co. Ltd. (2016) 387 ITR 354 (SC) - ineffective to the extent of claiming deduction u/s 85 for transfer of a depreciable asset being building.
- Though it remains long term capital asset (due to its period of holding) but becomes STCG by virtue of s. 74

# 1961 ACT REPEALED

- 1961 Act repealed vide s. 536 (Repeal and savings)
- Repealed Act to continue to apply to any pending proceedings
- Penalty can be imposed in the repealed Act
- Losses allowed to be carried forward
- MAT / AMT also allowed to be carried forward
- Many other allowed...
- General clauses Act applicable

# IN TY 2026-27 ?????

- ITR for AY 2026-27
- TDS / TCS for TY 2026-27
- Advance Tax for TY 2026-27
- Self assessment tax for AY 2026-27
- Presumptive Income
- Books
- Lower TDS/TCS certificate form
- Forms for informing other income / tax regime to be chosen by employee to employer

# FORMS / RULES

- 333 Rules as compared to 130 ++
- 190 Forms Eg. for PAN allotment - 4 forms (93-96 / 49A & 49AA of 1962 Rules)
- Form 26 - Form 3CA/CB/CD
- Form 44 – Form 67
- Form 48 – Form 3CEB
- Form 121 – Form 15G/H
- Form 130 / 131 – Form 16/16A
- Form 145/146 – Form 15CA/CB

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