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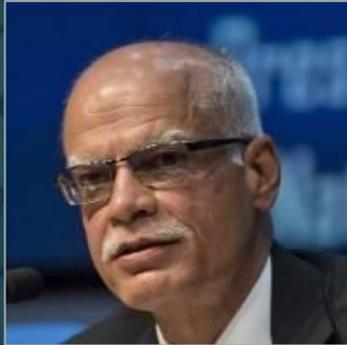
Budget 2026
What's in. What's next.

February 2026

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M&A



Budget 2026: From Policy signals to capital inflows

A Budget poised to 'crowd in' capital in a high-growth India

FISCAL PRUDENCE

Fiscal deficit maintained below 4.5%

Debt-to-GDP ratio nudged lower to ~55.6%

Stable inflation-growth-debt dynamics

EASE OF DOING BUSINESS – TAX

10% litigation pre-deposit

Defanging penalty and prosecution

Dispute prevention, litigation management and resolution

Culture of simplification and compliance

MACRO-STRUCTURAL STABILITY

Capital from Indian diaspora

PSU real estate recycling

Push towards “make in India” and strategic industries

Financial sector & bond market reforms

KEY THEMES driving M&A

Capex at scale creates deal momentum; boosts private capital inflows

Clearer tax and regulatory frameworks reduce execution risk

Ecosystem-led policy support enables scale - across infrastructure, manufacturing, Tech and FS, creating platform opportunities for strategic and financial investors

Lower uncertainty, higher conviction - the combined effect **lifts valuation multiples** and **unlocks incremental domestic and global capital for M&A**

Buyback equals ‘Capital Gains’ [1/2]

1

• **Erstwhile law:** Buyback Tax for company at 20%++ (primary cost available) + Exempt in the hands of shareholders

2

• **Existing law:**

- Buyback proceeds **taxed as ‘dividends’** + Tax on gross basis
 - Non-residents – Treaty rates can be availed
 - Indian Corporates – 25.17%; Individuals – 35.88%
- **Cost available** for future **set offs**

3

• **Budget 2026 proposal – To protect interest of minority shareholders**

- **Taxable as “Capital Gains’ + Tax on net basis [secondary cost benefit available]**
- **But with additional tax for ‘promoters’**
 - **Indian Corporates: 22% tax rate** including additional tax of 9.5%/ 2% (LTCG/ STCG)
 - **Others** [foreign company/ NRI/ resident individual]: **30% tax rate** including additional tax of 17.5%/ 10% (LTCG/ STCG)

Promoters means a person who is classified as such (for listed companies) or for unlisted companies, controls the company, or holds (directly or indirectly) more than 10% of its shareholding

Buyback equals ‘Capital Gains’ [2/2]

Investor profile	‘Dividend’ tax regime	Proposed ‘Capital Gains’ tax	Remarks
	Tax on ‘gross’ basis Cost available for future set offs	Tax on net basis Additional tax for ‘promoters’	
Foreign corporate promoter	Treaty rates - 5 to 15%	Increased CG to 32.76% [from 13.65%]	Dividend regime is better <i>[lower rate of dividend tax]</i>
Indian corporate promoter	Applicable rate - 25.17%	Increased CG to 25.17% [from 14.30%]	‘Capital Gains’ regime is better <i>[tax savings on cost is 25.17% vs earlier 14.30%]</i>
Indian corporate promoter [HoldCo]	Applicable rate - 25.17% Section 80M available	Increased CG to 25.17% [from 14.30%] + Repat cost at 35.88%	Dividend regime is better <i>[dual tax under Capital Gains tax regime]</i>
Resident promoter	Applicable rate - 35.88%	Increased CG to 35.88% [from 14.95%]	Capital Gains’ regime is better <i>[tax savings on cost at 35.88% vs earlier 14.95%]</i>
Non promoter – FPI/minority NR shareholders	Treaty rates - 5 to 15%	13.65% for LTCG/ 21.84% for STCG [no change]	Dividend regime is better <i>[where Dividend tax is less than 13.65%, otherwise Capital Gains regime is better]</i>

Impact on the ETR for cash distribution(s) and therefore, the IRR on investments to be evaluated based on specific facts

Other relevant proposals

01

STT rate increased – 0.05% for Futures; 0.15% for Options

Social change to disincentivize trading activities (90-95% investors lose money in F&O)

02

GCCs restructuring and reorganization to avail safe harbor

03

Leveraging IFSC as a Global Hub – Proposed to extend tax exemption for a period of 20 years

04

MAT credit to lapse – Impact on IRRs for REIT/InvIT investments to be considered

05

Data Center incentives – Tax holiday till 2047 for foreign companies using data centers in India

06

Adjusted return for reassessment proceedings – Impact of Supreme Court ruling on tax treaty benefit?

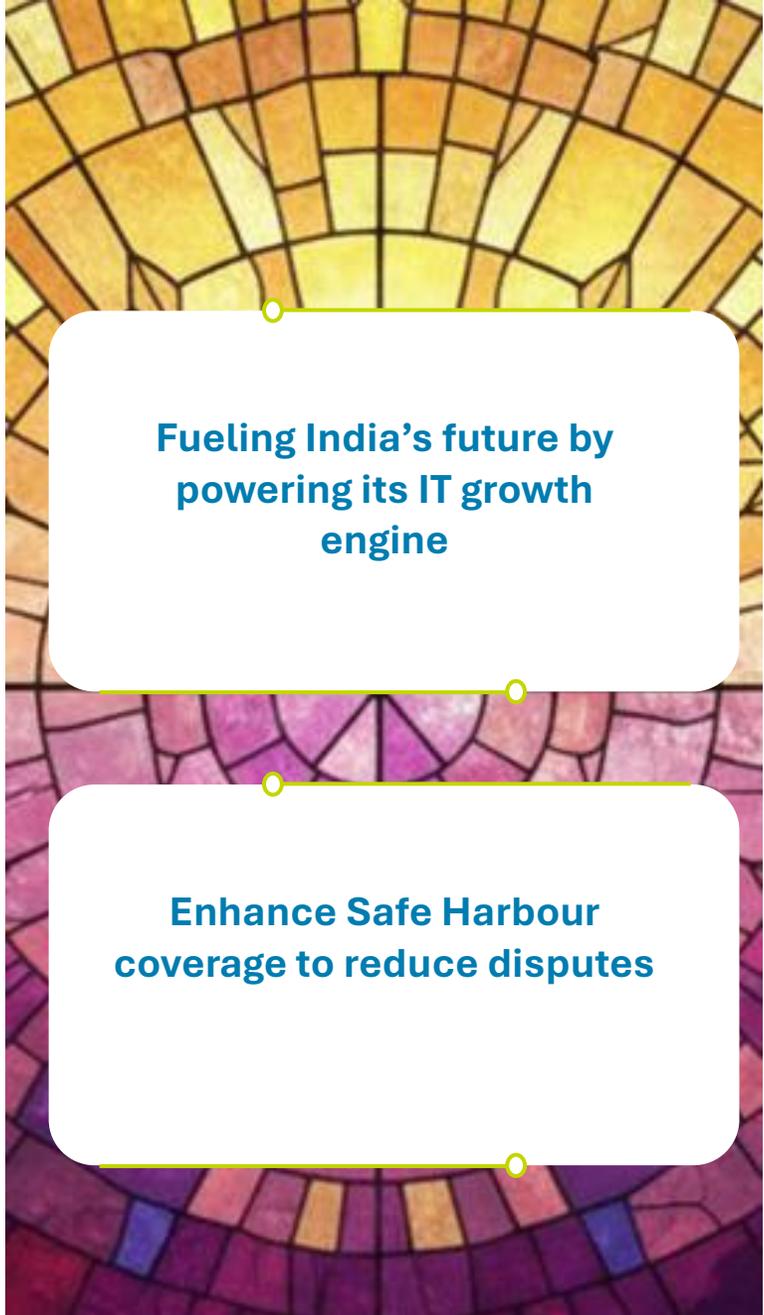
Transfer Pricing



Transfer Pricing

Safe harbour proposals

- **Information Technology services**
 - Definition includes software development, ITeS, KPO, and contract R&D services relating to software development
 - 15.5 percent safe harbour margin proposed
 - Eligibility threshold enhanced to INR20 billion from INR3 billion
 - Rule-based automated approval and valid for five years
- **Data Centre Services**
 - Safe harbour introduced for the first time
 - 15 percent safe harbour margin proposed
- **Electronic services**
 - Benefit extended to non-residents for electronic component warehousing in a bonded warehouse at a profit margin of two percent of invoice value.



**Fueling India's future by
powering its IT growth
engine**

**Enhance Safe Harbour
coverage to reduce disputes**

Transfer Pricing

Other significant amendments

Advance Pricing Agreements (APAs)

Fast track unilateral APAs for IT services

- Conclude APAs within two years, with an option to extend by six months at the taxpayers' request

Enables non-resident taxpayer to file a modified return

- Post APA conclusion, the facility of modified returns is proposed to be made available to the overseas/non-resident taxpayers whose income and tax liability in India is correspondingly modified
- This enables such taxpayer to claim the refund of additional/withholding taxes
- Effective for APA concluded on or after 1 April 2026 in respect of tax year beginning FY26–27 onwards.

Others

- Specific due dates have been proposed to remove the ambiguity in the determination of the due date for the issuance of transfer pricing order.
- Clarified that the limitation period for the issuance of an assessment order is only for the draft assessment order and does not extend to the issuance of a final assessment order post DRP directions.
- Penalty for not furnishing the transfer pricing audit report is proposed to be replaced with a fee, set at INR50,000 for delays up to one month and INR1,00,000 for delays beyond one month.

Corporate Tax



Corporate tax

Tax rates

Updates on MAT proposal:

- MAT now paid will be treated as final tax. No fresh credit accumulation is allowed from 1 April 2026.
- MAT credit set-off is allowed only under the new tax regime, limited to one-fourth of tax liability.
- Non-resident businesses providing services or technology for setting up electronics manufacturing facilities and those operating cruise ships in India are excluded from MAT.
- For foreign companies, MAT credit set-off is allowed only to the extent of the excess of normal tax over MAT in the relevant tax year.

Particulars	Scenario 1 (Tax under normal provision)	Scenario 2 (Tax under normal provisions)
Company type	Domestic	Domestic
Scheme opted	New	Old
Tax under normal provisions	1,00,000	1,00,000
Tax under MAT	NA	80,000
Available MAT credit	3,00,000	3,00,000
MAT credit utilized	25,000	Nil
Tax payable	75,000	1,00,000
Balance MAT credit to be carried forward	2,75,000	3,00,000*

* MAT carry forward would be available for set-off where taxpayer opts for taxation under new regime.

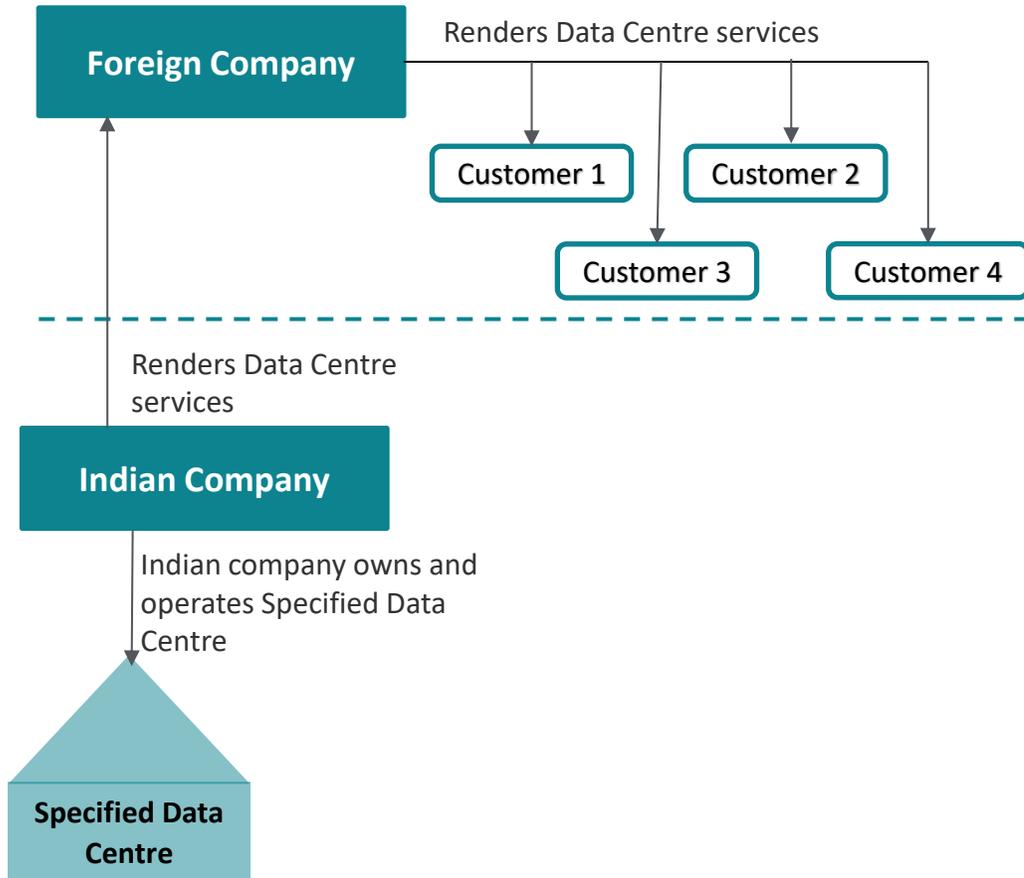
No change in corporate tax rates

MAT rate reduced from 15% to 14%

Taxpayers encouraged to adopt new tax regime

Corporate Tax

Incentives | Data Centre (1/2)



Opportunity

- India generates 20% of the global data. However, India hosts only 3% of the global Data Centres → thus leading to a growth opportunity and a competitiveness gap
- India's ambition to scale AI and digital services depends on globally competitive data center capacity and clear cross-border tax rules.

Proposals

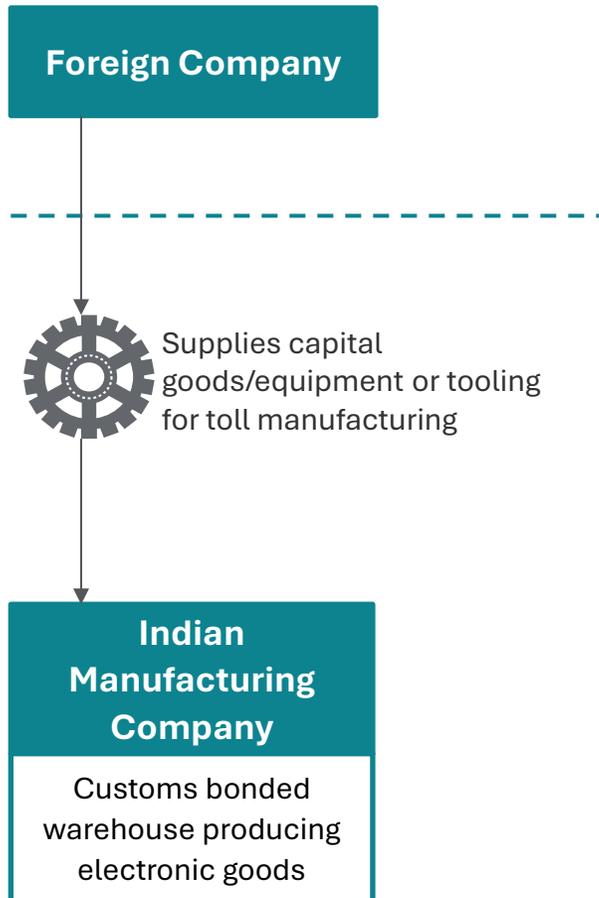
- Foreign company (FC) to enjoy tax holiday for 21 years – up until 31 March 2047
 - FC avails data centre services from a Specified Data Centre in India. In turn consumes such services for delivering in overseas market;
 - Specified Data Centre to be notified by the Central Government
 - Specified Data Centre shall be owned and operated by an Indian company
 - FC to use Indian reseller where there is domestic market sale.
- Transfer pricing safe harbor where Indian Company is a related party – 15% on cost

Impact on sector

- Significant step in the Viksit Bharat @ 2047 vision
- Provides long term tax certainty foreign taxpayers
- First among many steps in promoting the Data Centre and AI infrastructure investments

Corporate Tax

Incentives | Electronics Toll Manufacturing



Opportunity – Contract manufacturing

- Promote Electronics toll manufacturing in India

Proposals

- Foreign company (FC) to enjoy tax holiday for 5 years – up until 31 March 2031
 - FC supplies capital goods, equipment or tooling to an Indian contract manufacturer
 - Indian contract manufacturer is in a customs bonded warehouse producing electronic goods for the FC
 - Ownership of capex remains with foreign company. Capex is under the control and direction of Indian company

Impact on sector

- In the Finance Act 2025, the Government provided a presumptive taxation scheme to foreign companies providing services for setting up electronic manufacturing facility. Budget 2026 proposal brings in additional clarity for captioned supplies.
- Helps Indian companies ramp up toll manufacturing in electronics with foreign technology, equipment, etc.
- Provides tax certainty foreign taxpayers supplying items like tools, moulds, etc.

Corporate Tax

Incentives | Professional services

Opportunity – Professional services

- Encourage vast pool of global talent to work in India for longer period of time

Proposals

- Non-resident individual's income accruing or arising outside India during period of visit
- Period commences from the year of visit and available for 5 consecutive years
 - Individual shall be a non-resident for 5 consecutive years prior to the year during which he visits India for the first time
 - Services are in connection with any scheme notified by CG
 - Other conditions may be prescribed in due course of time

Provides certainty to foreign taxpayers

Encourage corporates to engage with large global talent pool

Corporate tax

Other key amendments

Cash flow impact

- Pre-payment of tax demand reduced from 20% to 10%. Further, 10% to be calculated only on core tax demand
- Withholding tax rates on supply of manpower rationalised

Retrospective amendments to tax settle controversy in assessments

- For re-assessment proceedings, assessing officer includes jurisdictional assessing officer and faceless assessing officer.
- Mistake, defect or omission in respect of quoting Document Identification Number in assessment order to not render the order invalid.

Tax compliances

- Revised return timelines extended to 31 March of the next financial year on payment of a fee
- The framework for filing updated returns has been amended to clarify that a return of loss can be updated where the updated return results in income or has the effect of reducing loss.

Simplification of legal proceedings

- Single order to be passed for assessment and penalty proceedings, reducing two proceedings to one.
- De-criminalization of TDS non-compliance, where the payment is in kind
- De-criminalization of failure to produce books of account/document
- Simple imprisonment substitutes rigorous imprisonment with the option to convert this into fine in certain cases.

Corporate Tax



Personal Tax

Key highlights

Tax rates

- No changes proposed in Income-slab rates under both the old regime and new regime.

Disclosure scheme for foreign assets:

- The Foreign Assets of Small Taxpayers Disclosure Scheme, 2026 (FASTDS-2026) is proposed for the declaration of unreported foreign assets and undisclosed foreign-sourced income.
- While tax and penalty would be payable, immunity from penalty and prosecution under Black Money Act may be available.

Others

- Sovereign Gold Bonds to be held by individual investor from date of original issue till maturity to qualify for capital gains exemption.
- Rules governing Provident Fund rationalised

Tax compliances

- Extended from 31 July to 31 August for taxpayers with business or professional income and partners of firms, not subject to tax audit.
- Extended from 31 December to 31 March for revising income tax return upon payment of nominal fee

Withholding tax provisions rationalised

- TCS on LRS remittances for education or medical treatment proposed to be reduced from 5 percent to 2 percent.
- TCS on overseas tour program proposed to be reduced from 5 percent/ 20 percent to 2 percent.
- Relaxation from obtaining TAN by a resident individual or HUF where the seller of the immovable property is a non-resident. Effective from 1 October 2026.

Indirect Tax



Indirect tax related announcements

Announcements proposed in the GST, SEZ and Customs

GST and SEZ laws

- 1. Export rule liberalisation** – Intermediary services made recipient-based. Reduces uncertainty and tax costs.
- 2. Post-supply discounts** – Simplified framework with GST credit notes. Flexibility for business operations.
- 3. Working capital optimization** – 90% provisional refund extended to IDS refunds.
- 4. Effective dispute resolution** – Empowering any existing authority for hearing matters w.r.t conflicting AAAR rulings till NAAAR gets constituted.
- 5. Boost SEZ manufacturing** – One-time concessional rates for supplies to DTA to address capacity utilization issues due to global trade disruptions.

Customs laws

- 1. AEO** – Strengthening the ecosystem
- 2. Digital trade facilitation** – Structural roadmap laid out
- 3. Seamless cargo clearance** – Trust based and risk led approach
- 4. Warehousing framework** – Shift from officer dependent approval
- 5. Courier, E-commerce, Baggage** – Bringing speed, certainty and simplification

Indirect Tax



Industry Impact

Join the respective breakouts

Details/links in the chat



Industry Impact
Join the respective breakouts
Details/links in the chat





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