



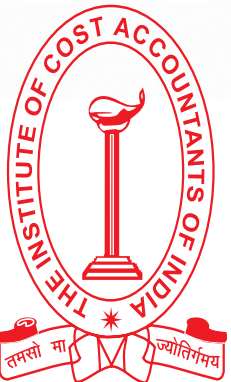
February, 2026

TAX Bulletin

Volume - 202
17.02.2026

**Special Edition :
Union Budget - 2026**

Part - II



ICMAI

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

भारतीय लागत लेखाकार संस्थान

Statutory Body under an Act of Parliament

(Under the Jurisdiction of Ministry of Corporate Affairs)

Headquarters: CMA Bhawan, 3, Institutional Area, Lodhi Road, New Delhi - 110003. Ph: 091-11-24666100

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5. Conducting and monitoring of Certificate Courses on Direct and Indirect Tax for members, practitioners and stake holders and also Crash Courses on GST for Colleges and Universities.



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Mode of Class	Offline/ Online	Online					
Course Fee* (₹)	10,000	14,000	12,000	10,000	10,000	12,000	10,000
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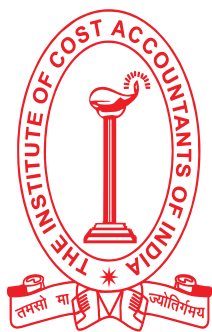
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Chairman's Message

CMA Rajendra Singh Bhati

Chairman Direct Taxation Committee



The evolving direct taxation landscape continues to reflect a progressive shift toward a more transparent, simplified, and taxpayer-centric framework. Recent policy developments highlight the Government's commitment to strengthening the foundations of a modern tax system that balances effective revenue administration with ease of compliance. Such reforms play an important role in enhancing confidence among taxpayers while promoting a culture of voluntary and responsible compliance.

For the professional community, these developments underscore the growing importance of clarity in tax interpretation, proactive compliance management, and informed advisory practices. As the regulatory environment becomes increasingly streamlined and digitally integrated, tax professionals are expected to play a more strategic role in guiding businesses and individuals through the changing framework while ensuring adherence to evolving regulatory expectations.

Another notable aspect of the current reform trajectory is the emphasis on improving certainty and stability within the tax ecosystem. A predictable and coherent tax structure is essential for fostering long-term investment decisions and supporting India's aspirations as a globally competitive economy. Strengthening dispute resolution mechanisms, simplifying procedural requirements, and promoting trust-based administration are key elements that contribute toward this objective.

In this context, the insights and developments highlighted in this bulletin aim to provide professionals

and stakeholders with a broader perspective on the changing dynamics of direct taxation. Continuous engagement with such developments will be essential for ensuring effective compliance, informed decision-making, and constructive participation in the evolving tax framework.

Overall, the direction of reforms reflects a constructive and forward-looking approach toward building a more efficient, stable, and growth-oriented direct tax regime, where professionals play a pivotal role in bridging policy intent with practical implementation.

Outreach Programme on Income Tax Act, 2025

15th February 2026 – Seminar on Income Tax Act, 2025 Organised by the Tax Research Department in association with ICAI–NIRC and ICAI–Prayagraj in collaboration with the Income Tax Department at Prayagraj, the seminar was comprehensively addressed by CMA (Dr.) Pawan Jaiswal, CMA Balgovind Yadav, and CMA Anwar Hasan. The session was honoured by the presence of Shri Shiv Kumar Rai, IRS, Principal Commissioner of Income Tax, as Chief Guest. The programme witnessed encouraging participation from members and facilitated meaningful professional interaction.

22nd February 2026 – Seminar on Income Tax Act, 2025 Organised by the Tax Research Department, ICAI in association with the Jaipur Chapter of ICAI and in collaboration with the Income Tax Department at Jaipur, the full-day seminar on “Detailed Discussion on the Income Tax Act, 2025” and was addressed by CMA Pramod Kr. Agarwal (Transfer Pricing) and CMA (Dr.) V. Murali (Salient

Features of the New Income Tax Act, 2025). The programme was honoured by the presence of Ms. Neetu Agarwal, Additional Commissioner, Income Tax Department, as Guest of Honour. The seminar witnessed encouraging participation from members and enabled meaningful interaction between professionals and tax administrators.

The Income Tax Series 2025 (Direct Taxation)

Continuing the knowledge initiatives under the Income Tax Series 2025 (Direct Taxation), a series of focused technical sessions were conducted to provide deeper insights into contemporary developments in direct tax law and practice.

During the period, on 03 February 2026, a session on “Assessment Reimagined: Streamlined Review Mechanisms under the Framework of the Income Tax Act” was delivered by Dr. Gopal Krishna Raju, where participants gained valuable insights into the evolving framework of assessment and the importance of efficient review mechanisms within tax administration.

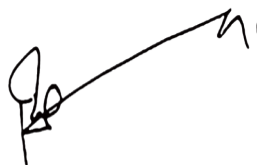
Further, on 10 February 2026, CMA Ritu Dash Choudhury delivered an insightful session on “Foreign Asset Disclosure is Non-Negotiable in the Light of the Income Tax Act, 2025”. The discussion emphasised the growing importance of transparency

and strict compliance requirements relating to foreign asset disclosures in the current regulatory environment.

Continuing the series, on 17 February 2026, Shri Nilay Baran Som addressed participants on “Rectification of Mistakes, Revision of Orders Prejudicial to Revenue, and Revision of Other Orders under the Income Tax Act, 2025”, providing practical clarity on important remedial provisions available under the Act.

These webinars witnessed enthusiastic participation from professionals and were highly appreciated by the attendees. The interactive discussions enabled participants to raise several practical queries, many of which were effectively addressed by the learned speakers.

With best regards,

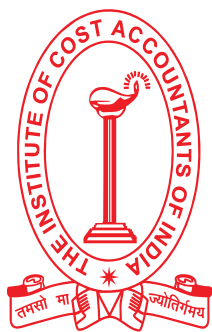


CMA Rajendra Singh Bhati

Chairman – Direct Taxation Committee

The Institute of Cost Accountants of India

37.02.2026



Chairman's Message

CMA Dr. Ashish P. Thatte

Chairman Indirect Taxation Committee



The evolving framework of indirect taxation continues to play a vital role in shaping India's trade environment and industrial growth trajectory. Recent policy developments reflect a thoughtful effort to align tariff structures, customs procedures, and sectoral incentives with the broader objectives of economic expansion, manufacturing competitiveness, and export promotion.

From a professional standpoint, these developments highlight the growing interconnection between tax policy and industrial strategy. Rationalisation of duties and sector-specific support measures have the potential to reduce production costs, strengthen domestic supply chains, and encourage greater value addition within the country. Such initiatives not only support emerging sectors but also provide a conducive environment for businesses seeking to scale operations in an increasingly competitive global market.

Another significant dimension is the continued emphasis on technology-driven customs administration and streamlined trade facilitation mechanisms. As processes become more digital, risk-based, and integrated across platforms, businesses may experience improved efficiency in cross-border transactions and reduced compliance friction. This shift underscores the importance of adaptability and informed compliance practices for organisations operating within international trade ecosystems.

For professionals engaged in indirect taxation, these developments reinforce the need for a strategic

and forward-looking approach. Beyond statutory interpretation, the role of professionals increasingly involves guiding businesses in navigating policy changes, optimising supply chains, and ensuring that operational decisions remain aligned with evolving regulatory frameworks.

Overall, the direction of reforms reflects a progressive effort to strengthen India's trade architecture while fostering a more efficient and transparent indirect tax environment. Such developments are expected to contribute to improved competitiveness, greater trade facilitation, and sustained growth across key sectors of the economy.

- **Kar Kranti Series (Indirect Taxation)**

Under the Kar Kranti Series (Indirect Taxation), focused technical deliberations were organised to deepen professional understanding of recent developments in the GST framework and related policy changes.

During the period under review, on 11 February 2026, a technical session on "Technical Compliance with Recent Changes in GST" was conducted by CMA Sanjali Dias, SVP – GSTN, where participants were apprised of recent compliance developments and the operational aspects of implementing changes within the GST ecosystem.

- **Webinars on Union Budget, 2026**

On 06 February 2026, CMA Niranjana Swain delivered a session on "Union Budget 2026:

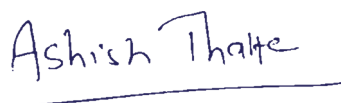
Highlights, Impact & Way Forward”, offering participants a comprehensive overview of the policy direction and its broader implications from an indirect tax perspective.

Further enriching the discourse, on 13 February 2026, Shri Bikash Gupta delivered an analytical session titled “The Cost Accountant’s Lens: Budget 2026 GST Analysis”, presenting a detailed examination of the indirect tax implications arising from the Union Budget 2026 and their potential impact on industry practices and compliance strategies.

These webinars received an encouraging response from the professional fraternity and witnessed active participation from members. The interactive nature

of the sessions facilitated meaningful discussions, enabling participants to raise practical queries which were effectively addressed by the distinguished speakers.

With Best Wishes

A handwritten signature in blue ink that reads "Ashish Thatte". The signature is written in a cursive style and is underlined with a single horizontal line.

CMA (Dr) Ashish P Thatte

Chairman – Indirect Taxation Committee

The Institute of Cost Accountants of India

37.02.2026

C O N T E N T S



Articles on the Topics of Direct and Indirect Taxation are invited from readers and authors. Along with the article please share a recent passport-sized photograph, a brief profile and the contact details. The articles should be the author's own original.

Please send the articles to
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PAGE NO.

ARTICLE

01 Union Budget 2026 : Key GST proposals – CMA Bikash Gupta	1
02 Union Budget 2026: Consolidating Reforms and Fine-Tuning India's New Tax Regime – CMA Pramod Kr. Agarwal	6
03 Government of India Pushes Global Trade by Easing Customs Processes and Compliances for Importers / Exporters / Tourists – CA Vivek Jalan	11

PRESS RELEASE

Direct Tax	16
Indirect Tax	17

JUDGEMENT

Indirect Tax	22
Direct Tax	26

TAX CALENDAR

Indirect Tax	32
--------------	----

PUBLICATION

E-Publications of Tax Research Department	33
---	----

Union Budget 2026: Key GST proposals



CMA Bikash Gupta

Tax Consultant

The Finance Bill 2026 continues the GST Council's reform agenda by proposing focused amendments intended to reduce friction in two long-litigated areas, *i.e.* trade discount treatment and intermediary services.

This note analyses the proposals from a legal perspective and highlights practical implementation issues that taxpayers should address upfront.

In the 56th GST Council Meeting, held on 03.09.2025, the Council specifically recommended following two amendments –

Amendment in place of supply provisions for intermediary services under section 13(8) of the IGST Act:

The Council recommended omission of clause (b) of section 13(8) of IGST Act 2017. Accordingly, after the said law amendment, the place of supply for “intermediary services” will be determined as per the default provision under section 13(2) of the IGST Act, 2017 i.e. the location of the recipient of such services. This will help Indian exporters of such services to claim export benefits.

Amendment of section 15 and section 34 of CGST Act, 2017 in respect of Post Sale Discount:

- To omit section 15(3)(b)(i) of CGST Act, 2017 thereby omitting the requirement of establishing the discount in terms of an agreement entered into before or at the time of such supply and specifically linking of the same with relevant invoices.

- To amend section 15(3)(b) of CGST Act, 2017 to provide that discount should be granted through a credit note issued under section 34 of the CGST Act and to correspondingly amend section 34 to include a reference to section 15(3)(b), so as to provide for reversal of Input tax credit by the recipient in case where a post-sale discount is given and value of supply is reduced through GST Credit note.
- To rescind circular No.212/6/2024-GST dated 26 June 2024 which provided a mechanism ensuring compliance of conditions of Section 15(3)(b)(ii) of the CGST Act, 2017 by the suppliers.

Tax Proposal A: Intermediary services – omission of IGST section 13(8)(b) [Clause 141 of the Finance Bill, 2026]

The existing controversy (why it was litigated heavily):

Section 13(2) of the Integrated Goods and Services Tax Act, 2017 (in short ‘IGST’) provides that by default the place of supply of services shall be the location of recipient. However, section 13(8) carved out special rules, including clause (b) for intermediary services, deeming place of supply to be location of supplier (*i.e.*, India if supplier is in India). This created a structural issue, since by this deeming provision the cross-border

intermediary arrangements (recipient outside India) could not qualify as export of services (because place of supply became India), thereby making them ineligible from the benefits of zero-rated supplies. Accordingly, the said class of services providers were becoming costlier in the international market, and the services were being exported along with tax.

The GST Council (56th meeting) explicitly noted that omission of clause (b) would, post amendment, make place of supply for intermediary services determined under section 13(2), helping Indian exporters claim export benefits.

What Budget 2026 proposes

The Finance Bill vide Clause 141 seeks to omit clause (b) of section 13(8) of the IGST Act, 2017 so that place of supply for “intermediary services” is determined under section 13(2) *i.e.*, location of the recipient. This tracks the GST Council’s recommendation verbatim in substance.

Core consequences (for exports/imports and compliance)

(A) Export characterization becomes feasible (prospective)

For intermediary services supplied by an Indian intermediary to a foreign recipient, post-omission:

- **Place of supply** would typically be **outside India** (*i.e.* recipient location), satisfying one major limb of “export of services” (subject to other conditions under IGST/CGST framework).
- This should enable **zero-rating** (LUT/ bond without payment or with payment and refund), subject to standard export-of-services conditions (recipient outside India, payment in convertible foreign exchange/ other permitted modes, supplier and recipient not merely establishments of distinct person, etc.).

(B) Impact on ongoing disputes / past tax paid (uncertainty)

The proposal is framed as a statutory omission; the Finance Bill notes do not indicate retrospective effect. Accordingly, past periods are likely to continue being governed by the then-existing section 13(8)(b) (unless any separate transitional/ retrospective provision is enacted).

In this regard, it is pertinent to mention that the omission of Section 13(8)(b) shall give equality to the intermediary exporters, and the omission may be considered to have curative in nature. Various courts have time and again held that where any omission in law is curative in nature then it would apply retrospectively [*Commissioner of Income Tax Versus M/s. Alom Extrusions Limited, 2009 (11) TMI 27 – Supreme Court*].

In case the instant proposed amendment is not given retrospective effect, the nature of the amendment whether curative or not shall be required to be tested in the Court of law.

(C) Intermediary definition disputes do not vanish

Interestingly, the omission of section 13(8) (b) solves the *place of supply* distortion, but it doesn’t fully remove disputes on whether an arrangement is ‘intermediary’ at all (which may affect classification, valuation, exemption and other place-of-supply carve-outs in different contexts). Hence, the dispute on “arranging/ facilitating vs providing on own account” may still be continued.

Areas to be considered by the Intermediary Services providers:

- **Re-evaluate export eligibility** of intermediary arrangements once notified: LUT strategy, invoicing, and refund workflows.
- **Pricing & contracts:** re-price commission where GST cost was embedded earlier; consider whether contracts should be renegotiated.



- **Litigation strategy:** classify pending disputes into (i) POS disputes driven by section 13(8) (b) and (ii) “intermediary definition” disputes; post-omission, some disputes may become commercially redundant prospectively but not for past periods.

Tax Proposal B: Post-supply discounts - Amendment to CGST section 15(3)(b) and alignment with section 34 [Clause 137 and 138 of the Finance Bill, 2026]

Existing framework and why it created friction

Under GST valuation rules, discounts can be excluded from “value of supply” if they meet the requirements in section 15(3). For post-supply discounts, the existing section 15(3) (b) architecture (pre-amendment) effectively required:

- the discount to be established in terms of an agreement entered before or at the time of supply,
- the discount to be specifically linked to relevant invoices, and
- the recipient to reverse proportionate ITC attributable to the discount.

Commercially, post-sale discounts are often computed and crystallised after supply is effected (year-end turnover discounts, target incentives, “price protection” credits, market-support schemes, etc.). The “pre-agreement + invoice-linkage” condition frequently resulted in disputes on whether a credit note reducing taxable value could be validly issued, and on whether suppliers could evidence recipient ITC reversal. Further, there was no system functionality/ facility presently available on the common portal to enable the supplier or the tax officer to verify the compliance of the said condition of proportionate reversal of input tax credit by the recipient.

To address evidentiary disputes, CBIC had issued **Circular No. 212/6/2024-GST dated 26 June 2024** prescribing a mechanism for suppliers to evidence compliance of conditions of section 15(3)(b)(ii) wherein it was stated that –

“2.4 In view of the above, till the time a functionality/ facility is made available on the common portal to enable the suppliers as well as the tax officers to verify whether the input tax credit attributable to such discounts offered through tax credit notes has been reversed by the recipient or not, the supplier may procure a certificate from the recipient of supply, issued by the Chartered Accountant (CA) or the Cost Accountant (CMA), certifying that the recipient has made the required proportionate reversal of input tax credit at his end in respect of such credit note issued by the supplier.”

Subsequently, the GST Council (56th meeting) recommended rescission of that circular in the context of rationalizing the statutory conditions themselves. Accordingly, the Circular No 212 was withdrawn vide Circular No **253/10/2025 – GST**, dated 01.10.2025.

What Budget 2026 proposes for post-sale discounts

The Finance Bill’s Notes on Clauses clearly state the legislative intent:

- Clause 137 proposes to amend CGST section 15(3) to do away with the requirement of linking the post-sale discount to a pre-existing agreement that is specifically linked to relevant invoices, and to instead refer to issuance of a credit note under section 34, where ITC is reversed by the recipient.
- Clause 138 proposes to amend CGST section 34 to include reference to discounts under section 15(3)(b), to facilitate issuance of credit notes for post-supply discounts within the credit note framework.

The GST Council press release (56th meeting) mirrors this omission of the “agreement/invoice

linkage” requirement and embedding the “discount through GST credit note + recipient ITC reversal” model, along with corresponding changes in section 34. The Council also recommended to provide clarification on the following certain issues, pertaining to Post Sale Discount namely, -

- a. non-reversal of Input Tax Credit on account of post-sale discount through financial/commercial credit note;
- b. treatment of the post-sale discount provided by manufacturer to the dealer as additional consideration, in the transaction between dealer and end customer;
- c. treatment of post-sale discount as consideration lieu of promotional activities etc. performed by the dealer.

Based on the said recommendation, Circular No. 251/08/2025-GST, dated 12.09.2025, has been issued wherein the aforesaid issues have been clarified.

Issue 1: Reversal of ITC on account of financial/commercial credit note –

It has been clarified that the recipient will not be required to reverse the Input Tax Credit attributed to the discount provided on the basis of financial/ commercial Credit notes issued by the supplier, as there is no reduction in the original transaction value of the supply and accordingly the corresponding tax liability would also not get reduced.

Issue 2: “Discount” vs “additional consideration” vs “separate supply”

There are two separate sales—

- (i) manufacturer → dealer, and
- (ii) dealer → end customer

both on a principal-to-principal basis. Since title passes to the dealer in the first sale, the dealer becomes the owner and later sells on its own

account. Any discount given by the manufacturer to the dealer is only a price reduction to support competitive pricing/sales, and not consideration for any separate service/activity by the dealer. Hence, such discount is not to be added to consideration as an “inducement” for further supply.

However, in case the manufacturer has an agreement with the end customer for supply at a discounted price, the manufacturer may issue commercial/financial credit notes to the dealer so the dealer can sell to the end customer at that agreed lower price. In this situation, the manufacturer’s post-sale discount to the dealer is treated as an inducement for the dealer’s supply to the end customer, so it must be included in the overall consideration for that supply.

Key issue: Matching of ITC reversal - evidencing recipient reversal

The deduction from the transaction value under Section 15(3)(b) is available subject to the condition that the recipient has reversed the credit as is attributable to the discount. This condition has not been changed in the Budget proposal also.

In this regard, the functionality of Invoice Management System (‘IMS’ in short) has been made available on the GST portal from 01.10.2024. Hence, if any Credit Note is rejected by the recipient on the IMS system, then the liability of supplier will be increased in GSTR 3B for the subsequent tax period. This mechanism shall also ensure compliance of the condition, as prescribed in Section 15(3)(b) of the CGST Act.

However, since the IMS is optional till date, it is important for the supplier to make sure that the recipient has reversed the corresponding ITC. In this the following internal measures should be taken into consideration –

- build a contractually enforceable mechanism requiring recipient to confirm ITC reversal;



- collect evidence from the recipient regarding the reversal of ITC (e.g., credit note acceptance, internal ledger entries etc.);
- carry out periodical reconciliation of accounts with the recipients.

Summary: Union Budget 2026's GST proposals are narrow in count but meaningful in impact. The post-supply discount amendment attempts to replace formalistic pre-conditions with a compliance mechanism centered on GST credit notes and recipient ITC reversal, while the intermediary POS change removes a long-criticised deviation from destination-based taxation by shifting place of supply to the recipient's location. Both changes are explicitly rooted in GST Council's reform agenda and should reduce avoidable disputes.

Disclaimer: *The views and opinions expressed in this article are solely those of the author and are intended for general informational purposes only. This write-up does not constitute professional advice, legal opinion, or a recommendation for any specific course of action. While every effort has been made to ensure the accuracy of the information and interpretations discussed, the author and publisher do not accept any responsibility for any loss or damage arising from reliance on the contents of this article. Readers are advised to independently verify the applicable legal provisions, notifications, circulars, and judicial precedents, and to seek appropriate professional advice before acting on any matter discussed herein. This article is based on the statutory framework and information available as on the date of publication.*

Union Budget 2026: Consolidating Reforms and Fine-Tuning India's New Tax Regime



CMA Pramod Kr. Agarwal

Dy. General Manager (F&A), GAIL

Union Budget 2026 assumes significance not merely as another annual fiscal exercise, but as a critical milestone in India's ongoing tax reform journey. Presented as the ninth consecutive budget by the same Finance Minister reinforces the narrative of political continuity and policy stability. Such continuity has enabled the government to move beyond incremental changes and focus on structural reforms that demand consistency and long-term vision.

To appreciate the importance of Budget 2026, it is essential to view it in the context of Budget 2025, which was widely acknowledged as a historic turning point for Indian taxpayers. Budget 2025 delivered an unprecedented bonanza to middle-class taxpayers through substantial enhancement of income-tax slabs and broad-based relief across taxpayer categories. More importantly, it laid the foundation for the most comprehensive direct tax reform in decades by announcing the replacement of the Income-tax Act, 1961 with the **New Income-tax Act, 2025**. During the year 2025, the Income-tax Bill, 2025 underwent an extensive legislative process involving stakeholder consultations, technical evaluation, and parliamentary debate. The Bill was ultimately passed by both Houses of Parliament and made effective from **1 April 2026**, marking the beginning of a new, simplified, and modern tax framework.

Against this backdrop, Union Budget 2026 was largely expected to focus on fine-tuning and operationalizing the new law, rather than introducing sweeping structural changes. The budget largely lived up to these expectations. A noticeable effort was made toward further simplification of provisions, removal of ambiguities, and alignment of procedural aspects with the spirit of the new Income-tax Act. These measures aim to reduce interpretational disputes and enhance ease of compliance for taxpayers.

Another key theme of Budget 2026 is the government's continued emphasis on litigation reduction and tax certainty. By refining provisions, streamlining processes, and reinforcing a trust-based approach to taxation, the budget seeks to curb avoidable disputes and improve the overall relationship between taxpayers and the tax administration. This is particularly important in strengthening India's image as a predictable and investor-friendly jurisdiction.

A significant area of focus in Budget 2026 has been transfer pricing litigation, which has historically been a major source of prolonged disputes for multinational enterprises. The budget introduced multiple measures aimed at dispute prevention, early resolution, and rationalization of transfer pricing adjustments. These steps signal a clear

intent to move away from adversarial tax administration toward a more collaborative and certainty-driven approach.

Another important focus of direct tax reforms reflects the Government's long-term vision of developing India as a global digital and financial hub under the Viksit Bharat framework. The Budget underscores this vision by extending targeted tax incentives to **data center businesses**, recognizing them as a strategic pillar of India's digital economy.

In parallel, the Budget further extends the tax holiday and concessional tax regime for units operating in GIFT IFSC, reinforcing its role as India's international financial gateway. These measures aim to enhance the global competitiveness of GIFT City by attracting foreign capital, fund management activities, offshore banking, insurance, and fintech operations into India. The continuation of tax incentives also provides stability and confidence to long-term investors, encouraging the migration of financial services that were traditionally located in overseas jurisdictions.

Collectively, these direct tax measures reflect a coherent policy strategy—leveraging fiscal incentives to drive infrastructure creation, deepen financial markets, attract global investment, and accelerate economic transformation. By aligning tax policy with the broader goal of Viksit Bharat, the Government is using the tax system not merely as a revenue tool, but as an instrument for sustainable and inclusive economic development.

The key direct tax proposals are summarized below:-

1. Rate of taxation:

- a) No changes proposed to the headline corporate tax rate.
- b) Minimum Alternate Tax (MAT) for companies:
 - No MAT to foreign companies which opt into presumptive taxation

- MAT rate reduced to 14% of book profits in the old regime
- MAT to be made as final tax in the old regime and consequently, no new MAT credit to be allowed to be carried forward
- Set-off of MAT credit to be allowed only in new regime to the extent of 25% of the tax liability in the new regime

2. Return of income:

- (a) No change in the due date to file original return or other forms as applicable to a corporate assessee. However, individual assessee, having nonaudit business or professional income, as well as certain partners and trusts, will now be permitted to file their returns by 31 August (as against existing 31 July).
- (b) The time limit for filing a revised return of income has been extended to 12 months from the end of the relevant financial year, as compared to the existing limit of 9 months. A fee INR 1,000 or INR 5,000, as applicable, shall be payable where such revised return is filed beyond the existing 9month period from the end of the financial year.
- (c) Updated return:
 - Proposal to allow filing of an updated return in cases where loss was determined in the original return. The loss cannot increase in the updated return.
 - Proposal to permit filing of an updated return of income even after the initiation of reassessment proceedings, provided such return is filed within the period specified in reassessment notice. Incremental income to be subjected to an additional tax of 10%.

3. Changes in buy back tax provisions:

- (a) Proposal to tax the consideration received on buy-back of securities as Capital Gain instead of Dividends.
- (b) Promoters are required to pay additional tax, over and above the regular capital gains tax.

4. Income exemption on compulsory acquisition of land:

- (a) The provisions of section 11 read with Schedule III of the Income-tax Act, 2025 provides for exemption of certain incomes. It inter alia provides exemption to an individual or a HUF on any income arising from the transfer of agricultural land subject to the conditions specified therein.
- (b) In order to align the provisions of the Act with the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act), amendments

have been proposed to Schedule III so as to provide exemption on any income in respect of any award or agreement made on account of compulsory acquisition of any land, carried out on or after the 1st April 2026, under the RFCTLARR Act.

5. Allowing Expenditure on Prospecting of Critical Minerals as Deduction:

- (a) It is proposed to expand the scope of Schedule XII of the Act, which lists minerals eligible for deduction of expenditure incurred on prospecting and exploration under section 51 of the Act. The amendment includes “critical minerals” in this list.

6. Rationalization of TDS/ TCS provisions:

- (a) ‘Supply of manpower’ to be brought within the ambit of ‘work’ thereby attracting TDS at 1%/ 2% as applicable
- (b) The Finance Bill proposes rationalization of various TCS rates as prescribed below:

a) Particulars	Current rate	Proposed rate
Sale of alcoholic liquor for human consumption	1%	2%
Sale of tendu leaves	5%	2%
Sale of scrap	1%	2%
Sale of minerals, being coal or lignite or iron ore	1%	2%
Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding ten lakh rupees for purposes of education or medical treatment	5%	2%
Sale of “overseas tour programme package” including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	5%/20%	2%

- (c) Existing provisions of the new Act provides an option to the assessee to file an application before the tax authorities for obtaining lower/ nil TDS/ TCS certificate. Proposal to enable electronic application to the prescribed authority and decision to issue/ reject to be issued digitally in certain cases.

7. Promotion of data centre business and contract manufacturing

- (a) Tax holiday until 31 Mar 2047 for foreign companies that earn income by providing cloud services to customers by using data centre services from India. Cloud services to Indian customers to be provided only through an Indian reseller entity.

- (b) Proposal to exempt the income of a foreign company arising from the provision of capital goods, equipment or tooling to an Indian contract manufacturer located in a customs bonded area (under section 65 of the Customs Act, 1962), where such manufacturer produces goods on behalf of the foreign company. The exemption is proposed to be available up to tax year 203031.

8. Transfer Pricing:

- (a) Announcements relating to rationalization of Safe Harbor provisions for IT Sector (detailed rules and guidelines are awaited):
- Wide range of services proposed to be clubbed under the category of IT Services with a safe harbor margin of 15.5%
 - Threshold for eligibility to apply Safe Harbor increased from current INR 300 crore to INR 2,000 crore
 - Transfer Pricing safe harbor of 15% on cost in case the company providing data centre services from India is an associated enterprise
 - Approval under rule-based automatic process without need of any examination of application
 - Once approved, safe harbor continues for a period of 5 years at the choice of the taxpayer
- b) Amendments to the Advance Pricing Agreement (APA):
- Fast-tracked Unilateral APA process for IT services targeted for completion within two years (detailed rules and guidelines are awaited).
 - The Associated Enterprises of the entity entering into APA also allowed to file modified returns

9. Penalty, prosecution and litigation management:

- (a) Proposal to reduce the predeposit requirement from 20% to 10% for appeal cases (detailed rules and guidelines are awaited)
- (b) Decriminalisation / grading of offences: Existing provisions attract rigorous imprisonment upto 7 years for several offences. It is proposed to:
- Shift to simple imprisonment, cap max at 2 years (3 years for repeat)
 - Graded by tax amount; only fine where amounts are small (\leq INR 10 lakh).
 - Full decriminalisation of some technical lapses (e.g., nonproduction in specific contexts).
- (c) Conversion of 'Penalty' into 'Fee' for technical failures
- Failure to obtain tax audit report (Form 3CA/3CD): INR 75,000 for delay upto 1 month and INR 150,000 thereafter
 - Failure to obtain TP report (Form 3CEB): INR 50,000 for delay upto 1 month and INR 100,000 thereafter
 - Failure to furnish the SFT: Fee of INR 200 for every day of delay with an upper limit of INR 100,000 (no limit in the existing provisions)
- (d) Proposal to impose penalty for underreporting of income concurrently with the assessment proceedings, with such penalty forming part of the demand raised. However, interest for nonpayment of the penalty shall be levied only after the disposal of the first appeal proceedings [CIT(A)/ ITAT]

- (e) Rationalisation of provisions related to unexplained income/ asset/ expense:
- Reduction in tax rate to 30% from existing 60%
 - No separate penalty for such income and the penalty to be levied in accordance with the regular provisions of penalty
- (f) Immunity from penalty to be extended for cases involving mis-reporting of income as well with payment of additional tax (100%/ 120%)
- (g) Clarificatory amendments on certain procedural matters concerning assessment and reassessment proceedings
- Pre re-assessment notices to be issued by Jurisdictional AO and thereafter, the re-assessment proceedings to be conducted by the National Faceless Assessment Centre and its units in a faceless manner.
 - Assessments not to be invalidated merely on the grounds of any mistake, defect or omission on account of computer-generated DIN, if such assessment is referenced by computer generated DIN in any manner.
 - Statutory time line to issue the final assessment order excludes time provided for proceedings before the Dispute Resolution Panel, where applicable
10. Under the existing provisions, a deduction for employees' contribution to welfare funds (such as PF, ESI, etc.) is allowable only if the contribution is deposited within the due dates prescribed under the respective welfare legislations. The proposal now seeks to allow such deduction where the payment is made on or before the due date for filing the return of income.
11. No deduction shall be allowed in respect of any interest expenditure incurred for

earning dividend income or income from units of mutual funds. Previously deduction of interest expense to the extent of 20% of gross dividend/ income was permitted.

12. The tax holiday for IFSC units is proposed to be extended from 10 years to 20 years, with a concessional 15% tax rate applicable on business income after the deduction period.
13. In respect of units that start operations on or after 1 April 2026, this benefit shall be available only if it is not formed by splitting up or reconstruction or reorganisation or transfer of a business already in existence in India.
14. Proposal to introduce Disclosure Scheme for 'Foreign Assets of Small Taxpayers' which will provide a time-bound voluntary declaration window for small/ legacy/ inadvertent cases with a tax/ fee and limited immunity.

Concluding Remarks

The Union Budget and particularly direct tax proposals reflect a comprehensive approach by the Government in identifying and addressing the key pain points faced by taxpayers. The wide-ranging measures announced are expected to significantly enhance tax certainty and further strengthen the ease of doing business in India. Notably, the proposals demonstrate that the Government has undertaken a deep and granular review of virtually every aspect of the tax framework, signaling a conscious and calibrated effort towards overhauling the tax law in a holistic manner.

In conclusion, Union Budget 2026 may not be remembered for headline-grabbing announcements, but it plays a crucial role in consolidating and fine-tuning the reforms introduced in the previous year. By strengthening simplification, reducing litigation, enhancing tax certainty, and addressing complex areas such as transfer pricing, the budget reinforces India's transition to a stable, transparent, and growth-oriented tax regime under the new Income-tax Act.

Government of India Pushes Global Trade by Easing Customs Processes and Compliances for Importers / Exporters / Tourists



CA Vivek Jalan

Tax Consultant

The Union Budget proposals relating to Customs mark a clear strategic shift by the Government of India towards trade facilitation, ease of compliance, and alignment with global best practices. The recent budgetary changes in customs law, procedures, and administration reflect the Government's intent to reduce friction in cross-border trade, enhance predictability for businesses, and improve the experience of travellers and tourists.

I. Enhancing Ease of Compliance for Importers: Key Customs Reforms

The Government of India's recent Customs reforms represent a decisive move towards a trust-based, technology-driven, and risk-managed import framework. By combining deferred duty payment, automation, tariff rationalisation, and platform-based integration of regulatory approvals, the measures significantly enhance ease of compliance, reduce transaction costs, and improve predictability for importers. The reforms are aligned with global best practices and directly support domestic manufacturing, supply chain resilience, and India's integration into global value chains.

Trust-Based Facilitation and Liquidity Support

Deferred payment of Customs duty under section 47 of the Customs Act, 1962 is a trade facilitation measure that allows specified categories of

importers to clear goods without immediate duty payment. Presently, the facility is available to Authorised Economic Operators (AEOs) Tier-Two and Tier-Three and Authorised Public Undertakings, with a deferred period of 15 days. However, the following changes have been done vide Budget 2026:

- The extension of the deferment period from 15 days to 30 days.
- Introduction of a new category of "Eligible Manufacturer Importers."

From a compliance and industry standpoint, these measures are significant as they shift the import duty burden closer to the point of commercial realisation rather than the point of entry. For manufacturing entities, the ability to clear raw materials and inputs without immediate duty payment improves cash flow efficiency, reduces reliance on short-term working capital financing, and supports just-in-time production models.

Further, by extending the deferment window to 30 days, the reform reduces the effective cost of importation by lowering the opportunity cost of blocked funds. In practical terms, this is expected to reduce port dwell time and minimise demurrage and storage charges, particularly

where duty payment previously acted as a clearance bottleneck.

Overall, the reform strengthens the policy approach of granting facilitation benefits to compliant importers, while allowing Customs administration to concentrate enforcement resources on higher-risk transactions.

Automation and Contactless Import Processing

The expansion of automated processes such as Auto Goods Registration and Auto Out-of-Charge strengthens contactless, system-driven import clearance. Auto Goods Registration refers to system-driven automated registration of imported goods immediately on arrival, without requiring importers to submit a separate web-based request. Auto Out of Charge is a facility where the Out of Charge for imported goods is granted in an automated manner by the system without any manual intervention by Customs officers, provided there are no compliance requirements.

From an operational perspective, these measures reduce procedural bottlenecks and minimise delays arising from human interface and discretionary processing. By standardising decision-making through system logic, automation also enhances transparency and consistency, thereby lowering compliance uncertainty for importers.

For importers, the immediate benefit lies in faster clearance timelines and greater predictability in cargo movement, which supports supply chain planning and reduces logistics costs. From a governance and enforcement standpoint, automation enables Customs authorities to shift resources away from routine clearance functions towards targeted risk assessment, profiling, and post-clearance audit, thereby strengthening enforcement capacity without compromising trade facilitation.

Predictability through Risk-Based Trusted Trader Frameworks

The Authorised Economic Operator (AEO) Programme remains central to India's import facilitation strategy. With a structured, tier-based benefit system, AEO importers experience significantly faster clearance and reduced examination. The recognition of AEO status by Partner Government Agencies and its integration under the National Trade Facilitation Action Plan (NTFAP) 2024–27 extends facilitation across the entire import clearance chain.

This framework provides compliant importers with a predictable operating environment while enabling Customs to concentrate resources on higher-risk transactions, thereby improving overall trade efficiency.

Transparency and Standardisation in Cargo Examination

Measures such as e-scheduling of cargo examination on ICEGATE 2.0 and the introduction of Body-Worn Cameras strengthen transparency and accountability in Customs examination procedures. By standardising examination timelines and practices, these initiatives reduce uncertainty, curb discretionary interventions, and improve trust between trade and administration.

For importers, this results in fewer delays and disputes, contributing to smoother cargo movement without compromising regulatory oversight.

Digital Warehousing and Supply Chain Flexibility

Customs warehousing reforms have progressed towards fully digital, record-based monitoring, with simplified inter-warehouse movement and automated compliance checks. These measures provide importers with greater flexibility in inventory management, deferred duty planning, and just-in-time sourcing of inputs.



At the systemic level, digital warehousing enhances risk-based oversight through data analytics rather than physical controls, supporting both facilitation and compliance objectives.

Cost Competitiveness through Tariff Rationalisation

Complementing procedural reforms, the rationalisation of Basic Customs Duty and tariff rates directly lowers the cost of imports. Targeted reductions in sectors such as energy transition, electronics, aviation, critical minerals, and strategic manufacturing correct inverted duty structures and improve access to essential raw materials, intermediates, and capital goods.

By reducing input costs, these measures enhance the competitiveness of domestic manufacturing and export-oriented industries, while also improving price stability and supply chain resilience for importers.

Integrated Compliance under SWIFT 2.0

The rollout of SWIFT 2.0 marks a major step towards an integrated EXIM clearance ecosystem. By enabling end-to-end electronic processing of regulatory approvals across Customs and all Partner Government Agencies on a single platform, SWIFT 2.0 eliminates duplication, manual workflows, and fragmented compliance requirements.

For importers, unified digital processing reduces clearance time, improves certainty of approvals, and lowers transaction costs. From a governance perspective, it strengthens inter-agency coordination and data-driven decision-making.

Overall Trade Impact

Taken together, these reforms significantly enhance ease of compliance, predictability, and efficiency across the import lifecycle. By embedding trust-based facilitation, automation, tariff rationalisation, and digital integration into Customs administration, the Government has created a more importer-friendly and globally

competitive trade environment. The measures reinforce India's position as an attractive destination for sourcing, manufacturing, and investment, while strengthening its commitment to modern, facilitative trade governance.

II. E-Commerce Export Reforms and Automation: Enhancing Ease of Compliance and Trade Facilitation for Exporters:

The Government's proposed Customs reforms mark a decisive shift towards trade facilitation, digitisation, and exporter-centric compliance. By addressing structural bottlenecks in e-commerce exports and expanding automation across export procedures, the measures aim to enhance ease of doing business, reduce transaction costs, and align India's Customs framework with global trade practices. The reforms are particularly significant for e-commerce exporters, MSMEs, artisans, and direct-to-consumer businesses, which form a rapidly growing segment of India's export ecosystem.

Impact on E-Commerce Exports

A key reform is the removal of the ₹10 lakh value cap on exports through courier mode. This change enables exporters to ship consignments of any value via courier channels, eliminating the need to divert higher-value shipments to conventional air or sea cargo routes. The reform reduces documentation requirements, procedural complexity, and clearance timelines, thereby improving operational efficiency. From a trade perspective, it facilitates faster order fulfilment, supports high-value direct-to-consumer exports, and allows Indian exporters to compete on delivery speed and flexibility in global e-commerce markets.

The introduction of a Return to Origin (RTO) framework for unclaimed or uncleared international courier shipments addresses a long-standing regulatory gap. The framework provides a clear legal mechanism for returning such parcels

to the foreign sender after a prescribed period, instead of mandating auction or destruction. This is expected to ease congestion at courier terminals, lower administrative costs, and bring certainty to Customs handling of unclaimed export consignments.

Recognising that higher return rates are inherent in global e-commerce, the reforms also introduce a simplified, risk-based mechanism for handling export returns and rejected orders. A dedicated digital return facility will link returned goods with the original export records, enabling swift clearance of low-risk cases while ensuring that such goods are not treated as fresh imports for duty purposes. This significantly simplifies reverse logistics, reduces compliance costs, and prevents unintended duty exposure for exporters.

Returned e-commerce goods are cleared by linking them to the original export record and are not treated as fresh imports, avoiding additional customs duty and simplifying reverse logistics.

Collectively, these reforms reduce the financial and operational risks associated with e-commerce exports, support predictable return policies, and strengthen buyer confidence in Indian online sellers. From a policy standpoint, they are likely to encourage greater formalisation and expansion of e-commerce exports, particularly benefiting MSMEs, artisans, and smaller exporters with limited compliance infrastructure.

Automation and Streamlining of Export Processes

In addition to e-commerce-specific measures, CBIC has expanded automation in export procedures through the introduction of Auto Goods Registration for e-sealed export cargo and Auto Let Export Order (LEO), applicable to all exporters. As notified under Circular No. 06/2026-Customs dated 01.02.2026, these measures automate key stages of export clearance with minimal physical interface.

The shift to automated processing enhances transparency, reduces discretionary delays, and improves predictability in clearance timelines. Exporters benefit from faster turnaround, lower transaction costs, and improved supply chain planning. From an administrative perspective, automation enables more effective risk management by allowing Customs authorities to focus resources on high-risk consignments rather than routine exports.

Illustration: Where an exporter dispatches e-sealed goods, Auto Goods Registration and Auto LEO are now generated electronically without officer intervention, enabling quicker clearance and faster loading schedules. This improves delivery timelines for overseas buyers and supports competitiveness in time-sensitive export markets.

Overall Trade and Policy Impact

Taken together, the reforms reflect India's transition towards a modern, technology-driven Customs regime focused on facilitation rather than control. By lowering compliance costs, reducing procedural friction, and enabling faster exports, the measures enhance India's trade competitiveness and integration with global value chains. The reforms directly support policy objectives such as MSME empowerment, promotion of e-commerce exports, and advancement of the 'Make in India' and 'Digital India' initiatives.

Overall, the proposed changes are expected to improve export volumes, strengthen India's trade facilitation credentials, and create a more predictable and exporter-friendly Customs environment, delivering tangible benefits to both exporters and the broader economy.

III. Baggage Rules, 2026: Reducing Border Friction to Support Trade in Services:

The Baggage Rules, 2026 streamline customs procedures for international travellers, reducing



border friction and directly supporting trade in services such as tourism, business travel, and professional mobility. Rationalised duty-free allowances and continued exemption for used personal effects accelerate passenger clearance and improve throughput at airports.

A key compliance benefit arises from clearer and more standardised treatment of personal effects and jewellery. By introducing objective thresholds, including weight-based limits, the framework reduces interpretational ambiguity and correspondingly lowers the scope for valuation-related disputes and discretionary delays at the point of entry. Further, digitised procedures for temporary import and re-import of valuables support smoother cross-border movement for frequent business travellers, overseas buyers, and professionals, who often require predictable clearance for high-value personal items.

From an economic and policy standpoint, the reforms strengthen India's ease-of-travel environment by enabling quicker and more predictable passenger clearance. This improves

airport efficiency, supports increased passenger volumes, and contributes to downstream economic activity across airlines, hospitality, transport, retail, and other travel-linked service sectors.

Illustration: An overseas buyer visiting India for sourcing and negotiations benefits from expedited baggage clearance, enabling timely business engagement and increased spending across travel and local services.

Conclusion:

Overall, the Customs reforms announced in the Union Budget focus on making trade simpler, faster, and more efficient. By promoting trust-based compliance for importers, using technology to streamline export processes, and easing baggage rules for passengers, the Government has reduced key bottlenecks in cross-border trade. These measures lower compliance costs, improve transparency, and enhance predictability, thereby strengthening India's competitiveness in global trade and supporting growth in manufacturing and exports..

PRESS RELEASE

DIRECT TAX

BDT seeks stakeholders' inputs on proposed Income-tax Rules and Forms related to Income Tax Act, 2025

As part wider consultative process, CBDT has launched a utility on the e-filing portal to gather inputs and suggestions from stakeholders in four categories

Posted On: 08 FEB 2026 11:06AM by PIB Delhi

The Income-tax Act, 2025 received the assent of the President in August 2025. The Act will come into effect from 1st April 2026.

Before final notification of the Income Tax Rules and Forms, to encourage wider stakeholder participation, the proposed Income Tax Rules and Forms have been uploaded on the official website: www.incometaxindia.gov.in.

The corresponding Income-tax Rules and related Forms have been prepared after broad-based consultation to align with the provisions of the Income-tax Act, 2025.

Stakeholders are encouraged to study the same and make suggestions, which will be compiled and considered for review before final notification.

As part of a wider consultative process, the Central Board of Direct Taxes (CBDT) invites inputs and suggestions from stakeholders in the following four categories:

1. Simplification of Language
2. Reduction of Litigation
3. Reduction of Compliance Burden
4. Identification of Redundant/Obsolete Rules and Forms

To facilitate this, a utility has been launched on the e-filing portal, which can be accessed through the following link:

<https://eportal.incometax.gov.in/iec/foservices/#/pre-login/ita-comprehensive-review>

The above link is live and accessible to all stakeholders from 04.02.2026 on the e-filing portal. Stakeholders can submit their inputs by entering their name and mobile number, followed by an OTP-based validation process.

All suggestions should clearly specify the relevant provision of the proposed Income-tax Rules or the proposed Form no (including the specific rule, sub-rule, or form number) to which the recommendation pertains under the aforementioned four categories.



INDIRECT TAX

Central Board of Indirect Taxes & Customs organises post-Budget interactive session with stakeholders in Mumbai today

Posted On: 12 FEB 2026 7:00PM by PIB Delhi

The Central Board of Indirect Taxes and Customs (CBIC) organised an interactive session with representatives of Trade Associations, Chambers of Commerce, Exporters, Importers, Custodians, Customs Brokers, Logistics Service Providers, at New Custom House, Mumbai.

The event was presided over by Shri Vivek Chaturvedi, Chairman, CBIC; and Shri Yogendra Garg, Member (IT, Taxpayer Services & Technology), CBIC. Pr. Chief Commissioners of Mumbai Customs and GST, Joint Secretary (Customs), Commissioner (Customs & Export Promotion) and Commissioner, GST Policy Wing were also present along with other senior officers of the Department.

In his address, Shri Chaturvedi elaborated how the newly-introduced reforms, which emphasise trust-based governance in Indirect Taxes, announced in the Union Budget 2026-27, will contribute to the vision of the Government. He clarified the intricacies of the Budgetary policy changes and explained how the Customs is working towards simplification of Customs processes.

Joint Secretary (Customs) informed that for public facilitation and for ease of understanding these initiatives, FAQs have been released by CBIC and are posted on the official website at <https://www.cbic.gov.in>.

The interaction with stakeholders was aimed at addressing the doubts of trade and industry and was followed by an interaction with media persons.

Shri Chaturvedi also held an interaction with the officers and staff working at the cutting edge

level in Mumbai Customs, Airport, Courier Terminal and CGST to sensitise them regarding efficient implementation of reform initiatives and to enhance the ease of doing business for the trade and industry.

Tax Research Department's Perspective on Union Budget 2026

The Union Budget 2026 marks one of the most comprehensive structural reforms in India's taxation landscape in over six decades. The proposed New Income Tax Act, 2025 (effective April 2026) replaces a statute that has undergone more than 65 years of layered amendments. This reform reflects a decisive shift toward simplification, litigation reduction, digital integration, and global competitiveness.

From a policy standpoint, the Budget is anchored on three strategic pillars:

- Ease of compliance
- Trust-based tax administration
- Investment and export facilitation

India's tax-to-GDP ratio has steadily improved in recent years, and the reforms appear designed to sustain revenue growth while lowering compliance friction.

I. Direct Taxation – Simplification with Structural Reset

The transition from the Income-tax Act, 1961 to the New Income Tax Act, 2025 represents a comprehensive restructuring of tax law to improve clarity, reduce ambiguity, and align with digital systems.

1. Reduced Litigation & Trust-Based Compliance

Tax litigation in India has historically involved disputed demands running into several lakh crore rupees. By integrating assessment and penalty proceedings into a single consolidated order, the Budget aims to eliminate parallel litigation tracks.

Key reform measures include:

- Updated return facility even after reassessment initiation with additional 10% tax
- Immunity from penalty for misreporting upon additional tax payment
- Decriminalisation of procedural defaults such as non-production of books
- Immunity for non-disclosure of non-immovable foreign assets below ₹20 lakh

These measures are expected to:

- Reduce appellate backlog
- Improve voluntary compliance
- Enhance revenue certainty

The extension of return revision timelines up to 31 March (from 31 December) provides taxpayers an additional 3-month compliance window.

2. TDS/TCS Rationalisation – Liquidity & Consumption Boost

The Budget rationalises TCS and TDS structures to ease working capital pressure:

- TCS on overseas tour packages reduced to 2% (from 2–20%)
- TCS on LRS remittances for education and medical reduced from 5% to 2%
- Automated lower/nil TDS certificate mechanism
- Single-window Form 15G/15H filing through depositories

With India's outward remittances under LRS crossing billions of dollars annually, the reduction in TCS directly improves household liquidity and reduces refund dependency.

For labour-intensive sectors, simplified TDS provisions for manpower supply may improve ease of compliance for MSMEs employing large workforce bases.

3. Corporate Tax & MAT Reforms – Encouraging New Regime Migration

The proposal to:

- Reduce MAT from 15% to 14%
- Convert MAT into final tax from 1 April 2026
- Allow set-off of brought-forward MAT credit up to 25% of new regime liability

provides transitional certainty.

MAT credit accumulation has historically created complexity in corporate tax planning. The move toward a final tax structure reduces deferred tax distortions and simplifies financial reporting.

Additionally, buyback taxation as capital gains (with effective tax of 22% for corporate promoters and 30% for non-corporate promoters) aligns buyback taxation with equity distribution principles and strengthens minority shareholder protection.

4. International Tax & IT Sector – Strategic Global Positioning

India's IT and IT-enabled services exports exceed USD 200 billion annually. The Budget's measures aim to protect and expand this competitive advantage.

Key measures include:

- Safe harbour threshold raised from ₹300 crore to ₹2,000 crore
- Uniform safe harbour margin of 15.5%
- Automated approval and 5-year continuity



- APA timeline targeted within 2 years
- Tax holiday for foreign cloud service providers using Indian data centres until 2047

These reforms may:

- Reduce transfer pricing disputes
- Improve investment predictability
- Position India as a global data centre hub

The safe harbour for component warehousing at 2% profit margin (effective tax ~0.7%) enhances India's competitiveness compared to competing Asian jurisdictions.

5. Cooperative Sector & Small Taxpayer Support

The cooperative sector plays a significant role in rural credit and agricultural supply chains. Extending deductions to additional cooperative activities and granting dividend exemptions for notified national federations reinforces grassroots economic stability.

The one-time 6-month foreign asset disclosure scheme offers compliance correction without aggressive prosecution, signalling balanced enforcement.

II. Indirect Taxation – Sectoral Support & Tariff Calibration

Indirect tax reforms are calibrated to align with industrial policy, energy transition, and export competitiveness.

1. Sector-Focused Incentives

Key customs exemptions include:

- Capital goods for Lithium-Ion cell manufacturing
- Sodium antimonate for solar glass production
- Aircraft components and defence aviation raw materials
- Processing inputs for seafood, leather, textiles

India's renewable energy targets and aviation expansion strategy benefit directly from these measures. Lower customs duties reduce input costs, improving domestic manufacturing viability.

2. Healthcare & Social Relief

Exemption of 17 drugs and expansion of duty-free allowances for rare diseases reflect social sensitivity. These measures reduce cost burden on patients and improve access to critical treatment.

The reduction of tariff rate on personal imports from 20% to 10% enhances consumer relief.

3. STT Rationalisation

Increase in STT:

- Futures: 0.02% → 0.05%
- Options premium/exercise: 0.1– 0.125% → 0.15%

While marginally increasing transaction costs in derivatives, the measure enhances revenue stability without materially affecting long-term investment flows.

III. Customs Reforms – Digital & Trust-Based Administration

India's logistics cost is estimated at around 13–14% of GDP. Customs process reforms are central to reducing this burden.

1. Digital Integration

Major reforms include:

- Rollout of Customs Integrated System (CIS) within 2 years
- AI-based non-intrusive scanning across major ports
- Single interconnected digital window by FY-end
- Clearance of non-compliance goods immediately post-registration

These initiatives may significantly reduce cargo dwell time and enhance India’s trade facilitation ranking.

2. AEO & Trust Architecture

- Duty deferral for AEOs extended from 15 to 30 days
- Advance ruling validity extended from 3 to 5 years

This strengthens certainty for compliant businesses and reduces working capital blockage.

3. Export Promotion & Blue Economy

- Removal of ₹10 lakh courier export cap
- High-seas fish catch treated as exports
- SEZ domestic sales allowed at concessional rates (limited proportion)

These reforms benefit MSMEs, start-ups, and India’s expanding e-commerce export ecosystem.

Comparative Overview – Existing Framework vs Proposed Framework (Budget 2026)

A. Direct Taxation

Particulars	Existing Framework	Proposed Framework (Budget 2026)	Likely Impact
Income Tax Law Structure	Income-tax Act, 1961 with multiple amendments over decades	New Income Tax Act, 2025 effective April 2026	Structural simplification and improved readability
Assessment & Penalty	Separate assessment and penalty proceedings	Integrated common order for assessment & penalty	Reduced procedural duplication and faster dispute closure
Updated Return	Limited scope once reassessment begins	Updated return permitted even after reassessment initiation (with additional 10% tax)	Litigation reduction and revenue certainty
MAT Regime	MAT @ 15% with credit carry forward	MAT @ 14% as final tax; limited set-off (1/4th liability); no future credit accumulation	Encourages migration to new regime and provides clarity
TDS/TCS Compliance	Manual applications for lower/nil deduction; higher TCS rates	Automated lower/nil certificate; reduced TCS rates (LRS, tour packages)	Liquidity improvement and digital compliance
Foreign Asset Non-disclosure	Prosecution provisions applicable	Immunity for small-value (< ₹20 lakh) non-immovable assets	Reduced criminal exposure for minor defaults
Buy back Taxation	Buyback tax at company level	Tax as capital gains; additional tax for promoters	Aligns with shareholder-based taxation principle
IT/Transfer Pricing	Safe harbour threshold ₹300 crore; APA timelines lengthy	Threshold increased to ₹2,000 crore; APA fast-tracked; 5-year continuity	Greater certainty for IT & digital sector

B. Indirect Taxation

Particular	Existing Position	Proposed Reform	Likely Impact
Sectoral Duty Structure	Multiple exemptions with sector fragmentation	Targeted exemptions for energy, aviation, electronics, marine & textiles	Sector-focused growth stimulus
STT on Derivatives	Futures 0.02%; Options 0.1–0.125%	Futures 0.05%; Options 0.15%	Moderate revenue augmentation
Rare Disease Drugs	Limited exemptions	Additional drugs & expanded duty-free allowance	Social welfare support
SEZ Domestic Sales	Standard DTA provisions	One-time concessional duty window (limited proportion)	Relief to SEZ manufacturing units

C. Customs & Trade Facilitation

Particulars	Existing Framework	Proposed Framework	Likely Impact
Customs Clearance	Multiple approvals; manual interface in many cases	Single digital window; Customs Integrated System (CIS) rollout	Reduced cargo dwell time
AEO Benefits	Duty deferral 15 days; advance ruling validity 3 years	Deferral extended to 30 days; advance ruling validity 5 years	Strengthened trust-based compliance
Warehousing	Compliance-heavy, officer-centric	Operator-centric with self-declaration & risk-based audit	Ease of doing business
Export via Courier	₹10 lakh cap per consignment	Value cap removed	Boost to MSMEs & e-commerce exports
Non-intrusive Scanning	Limited deployment	AI-based scanning expansion across major ports	Boost to MSMEs & e-commerce exports

Overall Assessment

From the Tax Research Department's analytical perspective, Union Budget 2026 represents:

- A structural recodification of direct tax law
- A calibrated rationalisation of indirect tax burdens
- A technology-driven transformation of customs administration
- A strategic push to position India as a digital, export-oriented, and investment-friendly economy

The emphasis is clearly reform-oriented rather than purely revenue-extractive. Successful implementation will depend on timely notification of rules, digital readiness, and administrative training before April 2026.

JUDGEMENT

INDIRECT TAX

Rejection of delayed appeal without hearing unsustainable; matter remitted for reconsideration: HC

■ Facts of the Case :

Watech RO Systems Pvt. Ltd. vs. State of Gujarat - [2026] (Gujarat)

The petitioner, a GST-registered manufacturer and trader of RO systems and parts, was issued a show cause notice (SCN) alleging excess ITC availed in delayed GSTR-3B returns. It furnished explanations pursuant to the SCN; however, the jurisdictional officer under CGST disallowed major ITC on timing and matching grounds and issued a demand order in Form DRC-07 for tax, interest, and penalty. It preferred to appeal under Section 107 of the CGST Act, with an 18-day delay. The appeal was rejected as time-barred without considering the plea for condonation of delay or affording an opportunity to be heard. The matter was accordingly placed before the High Court.

■ Decision of the Case :

The High Court held that the impugned order rejecting the appeal without considering the plea of delay and without affording an opportunity of hearing was unsustainable in view of the principles of natural justice. The Court recorded the statement made on behalf of the revenue that the impugned order would be withdrawn and a fresh order would be passed after granting the petitioner an opportunity to be heard. It was observed that the Appellate Authority under Section 107 of the CGST Act and the Gujarat GST Act is required to deal with all contentions raised and pass a reasoned order. The directions were issued to pass a fresh order after due opportunity of hearing and after addressing all contentions raised by the petitioner, and to complete the exercise within twelve weeks.

Assessee directed to pursue appellate remedy against direct confiscation without penalty determination : HC

■ Facts of the Case :

Vivek Verma vs. State of Gujarat - [2026] (Gujarat)

The petitioner, a cotton yarn trader, arranged transportation of goods but the vehicle was diverted due to traffic and intercepted by authorities, the driver produced the invoice, e-invoice, transport receipt, and e-way bills, and detention proceedings were initiated by issuing MOV-1 and MOV-2, with verification confirming that the documents tallied with the invoices, yet the proper officer issued MOV-4 and MOV-6 and, without determining penalty during detention, proceeded directly to confiscation by issuing MOV-10 and MOV-11, prompting the petitioner to challenge the action by writ. The matter was accordingly placed before the High Court

■ Decision of the Case :

The High Court held that when a statutory appellate remedy is available under Section 107 of the CGST Act, the writ petition ought not to be entertained in the absence of exceptional circumstances. The Court observed that the grievance raised pertained to the propriety of invoking confiscation proceedings under Section 130 and the alleged non-compliance with procedural requirements. It was held that the determination of whether issuance of MOV-10 and MOV-11 without prior penalty determination was justified. Accordingly, without expressing any view on the merits of the controversy, the petition was disposed, with all contentions kept open for consideration and decision on merits by the appellate authority.



Rejection of rectification application for ITC mismatch set aside as order lacked reasons and did not consider portal data or hear assessee : HC

■ Facts of the Case :

Shree Bharat Motors Ltd. vs. Chief Commissioner of CT & GST, Odisha - [2026] (Orissa)

The petitioner faced audit proceedings alleging non-reversal of ITC related to suppliers' credit notes and excess ITC compared to Form GSTR-2A, while contending that ITC matched Form GSTR-2A and the reversal was netted off in Form GSTR-9, supported by the purchase register, reconciliation statements, and credit notes ledger. The adjudication order nonetheless raised a demand citing the absence of original credit notes. The petitioner filed a rectification application, asserting that reconciliations and portal data showed no excess ITC, but it was rejected without reasons, verification of portal figures, or a hearing, and the matter was placed before the High Court

■ Decision of the Case :

The High Court held that Section 161 of the CGST Act contemplates rectification of mistakes apparent on record and requires reasoned consideration of materials available before the authority. The Court observed that the record disclosed an exhaustive point-wise reply and an ITC reconciliation summary filed by the petitioner, which warranted verification before rejection of the rectification application. It was held that the order of rejection, founded solely on reference to the rectification provision without examining portal data or affording opportunity of hearing, suffered from legal infirmity. Accordingly, the rejection order was set aside.

Proceedings under Sec. 28 of Customs Act can be initiated for short levy of IGST on imported goods: HC

■ Facts of the Case :

Al Kabeer Exporters vs. Deputy Commissioner of Customs (Imports) [2026] (Kerala)

The petitioners were GST-registered importers of semi-dried dates, claiming an IGST exemption intended for fresh dates. A post-clearance audit

detected the misdeclaration and issued show-cause notices under Section 28 of the Customs Act, 1962, orders demanding IGST at 12% with interest; only partial payments were made, and demand notices followed. It did not dispute the IGST liability but challenged the demand notices and sought amendment of Bills of Entry to claim input tax credit (ITC). The matter was accordingly placed before the High Court.

■ Decision of the Case :

The High Court held that the challenge to Section 28 proceedings was not maintainable and that IGST on imports was leviable under Section 3(7) read with Section 3(12) of the Customs Tariff Act, 1975 and Section 5 of the IGST Act, making Section 28 applicable for recovery of short levy. It further held that Section 149 of the Customs Act permits amendment of Bills of Entry only with contemporaneous documentary evidence, which was absent due to misdeclaration and delay, so correction for ITC was not permissible; hence the writ petitions were dismissed.

Assessment quashed as mistaken identity established due to reliance on returns of person with identical name : HC

■ Facts of the Case :

Srikant Das vs. Joint Commissioner of State Tax [2026] (Orissa)

The petitioner was a works contractor who had ceased business and did not possess any GST registration, yet the assessing officer generated a temporary GSTIN and issued ASMT-14 initiating assessment proceedings under Section 63 of the CGST Act, based on data indicating turnover and returns, and passed an ex parte order treating the petitioner as an unregistered person. The petitioner remained unaware of the proceedings and did not participate, and the appellate authority dismissed the appeal and confirmed the demand. The petitioner filed a writ petition challenging both the assessment order and the appellate affirmation. The matter was accordingly placed before the High Court.

■ **Decision of the Case :**

The High Court held that the assessment and appellate orders suffered from a fundamental error of fact, as the standing counsel admitted that the assessment was based on mistaken identity, the returns and turnover data relied upon pertained to another registered person bearing an identical name. It was observed that the assessment under Section 63 could not be sustained then the basic premise of the proceedings was conceded to be incorrect, and the appellate order confirming the demand likewise lacked legal validity. Consequently, the appellate orders were quashed, holding that the proceedings under Section 63, read with Section 107 of the CGST Act and the Odisha GST Act, were vitiated by mistaken identity, and the writ petition was allowed.

HC grants anticipatory bail to person accused of wrongful ITC availment as he had already faced one proceeding initiated by DGGI

■ **Facts of the Case :**

Dheeraj Gupta vs. State of Madhya Pradesh [2026] (Madhya Pradesh)

The applicant filed an anticipatory bail application apprehending arrest for alleged wrongful utilization of input tax credit (ITC). He submitted that he had already been arrested in a connected proceeding initiated by the office of the Director General of GST Intelligence (DGGI), and therefore, prosecution on the same count of allegation could not be permitted to continue. It was contended that the alleged amount, if exceeding Rs. 5 crores, attracts a maximum sentence of five years, and that the offence could be compounded under Section 138 of the CGST Act either before or after prosecution. The matter was accordingly placed before the High Court.

■ **Decision of the Case :**

The High Court held that the applicant had already faced one proceeding pursuant to action initiated by the office of the DGGI, and therefore, again prosecuting him on the same count of allegation would amount to double jeopardy. The court observed that the maximum sentence for the alleged amount, if exceeding Rs. 5 crores, is five years, and that the possibility of compounding under Section 138 of the CGST Act could not be ruled out. It further held that

custodial interrogation was not warranted and that detaining the applicant would adversely affect his business.

Composite SCN for multiple years under sec. 73 held without jurisdiction; assessment quashed: HC

■ **Facts of the Case :**

Tvl. Shot X Retail (P) Ltd vs. State Tax Officer (ST) [2026] (Madras)

The petitioner challenged the assessment order passed by the State Tax Officer pursuant to a single composite show cause notice (SCN) covering multiple financial years. The impugned order adjudicated demands in one consolidated proceeding. The petitioner relied on an earlier common order on an identical issue and contended that clubbing of adjudications for multiple financial years into one show cause notice and one assessment order was impermissible in law and rendered the assessment without jurisdiction. The matter was accordingly placed before the High Court.

■ **Decision of the Case :**

The High Court held that the impugned order covered more than one financial year. Such clubbing was without jurisdiction and impermissible in law under Section 73 of the CGST Act. The Court held that the composite assessment could not be sustained and that the impugned assessment and consequential orders were to be quashed. The Court set aside the composite SCN with liberty to initiate separate proceedings for each financial year.

Post Circular 173/05/2022 deleting restriction, inverted duty refund allowed even when input & output tax rates same: HC

■ **Facts of the Case :**

South Indian Oil Corporation vs. Assistant Commissioner Central Tax - [2026] (Karnataka)

The petitioner was engaged in the procurement of edible oils falling under HSN Code 15 on payment of GST at the rate of 5 per cent, which were purchased in bulk and thereafter packed into retail containers of varying quantities and supplied as output under the same HSN Code 15 at the same rate. Due to a higher



rate of tax suffered on certain inputs used in the packing process, accumulated and unutilised input tax credit (ITC) arose, and the petitioner filed refund applications claiming a refund of the accumulated credit on account of the inverted duty structure. The officer rejected the refund claiming inverted duty structure was not available where input and output tax rates were the same. The matter was accordingly placed before the High Court.

■ Decision of the Case :

The High Court held that accumulation of credit arose due to the rate structure and not due to change in rates at different points of time. The restriction denying refund of accumulated credit in cases where the rate of tax on input and output supplies was the same stood deleted by way of substitution through Circular No. 173/05/2022-GST, dated 06-07-2022. The Court further held that the Department of Revenue was not justified in rejecting the petitioner's refund claims. It was accordingly held that the petitioner was eligible to claim refund of accumulated ITC on account of inverted duty structure even where the tax rate on input and output supplies was the same, and the refund claim deserved to be allowed under Section 54 of the CGST Act and the Karnataka GST Act.

On amalgamation, new co. receives transferred ITC only; retained ITC if refunded to old co., bars later refund to new co. : HC

■ Facts of the Case :

Alstom Transport India Ltd. vs. Additional Commissioner, CGST and Central Excise - [2026] (Gujarat)

The petitioner was formed by the amalgamation of three entities, including an erstwhile company. The erstwhile company transferred nearly 80% of unutilized input tax credit (ITC) to the petitioner through FORM GST ITC-02, retaining the remainder. A refund application under the category 'ITC accumulated due to Exports of Goods/Services without payment of Tax', which was allowed by the competent authority. The petitioner later claimed refund of the remaining unutilized ITC of the erstwhile company, asserting that since the amalgamation transferred all rights and liabilities to the petitioner, it was entitled to refund under Section 54(3). The matter was accordingly placed before the High Court.

■ Decision of the Case :

The High Court held that on amalgamation, the business and adventure of the transferor company would transfer to the new company as per the sanctioned scheme, and the transferor was not restricted from transferring the entire unutilized ITC. The Court interpreted Section 18(3) and Rule 41(1) in their fundamental sense, emphasizing that the enabling mechanism for transfer of unutilized ITC cannot be used in a way. Since the transferor company continued to file GSTR-3B returns and availed ITC after the effective date, the ITC rights and liabilities were crystallized in its electronic credit ledger, and the transferee could claim the ITC only if it was transferred as prescribed. Consequently, the petitioner could not claim refund of the retained unutilized ITC.

Perishable arecanuts detained in transit to be released on bank guarantee pending adjudication: HC

■ Facts of the Case :

Venkateshwara Traders vs. Union of India - [2026] (Rajasthan)

The petitioner traded arecanuts against a purchase order from a registered dealer and issued a tax invoice with IGST charged. During transit, the consignment was intercepted and confiscation proceedings were initiated under Section 129 of the CGST Act, confirming confiscation and imposing penalty and fine. The petitioner filed written replies but no personal appearance was recorded. The confiscation order was challenged through writ petitions, contending that the goods were perishable and their continued detention would cause irreversible loss. The matter was accordingly placed before the High Court.

■ Decision of the Case :

The High Court held that the arecanuts fell within the definition of perishable goods and, therefore, their detention required special consideration. The Court directed release of the goods on furnishing a bank guarantee or solvency security equal to the invoice value, observing that the dispute involved factual examination and interim release would not prejudice the adjudication of the confiscation proceedings. The Court clarified that the release was without prejudice to the merits of the demand, which would be independently examined by the authorities during adjudication under Section 129 read with Section 130 of the CGST Act. The writ petitions were disposed accordingly.

DIRECT TAX

Limitation period for sale of property attached for recovery of tax to be reckoned from date of dismissal of SLP : HC

■ **Facts of the Case :**

Smt. Kumari Kanagam vs. Tax Recovery Officer - [2026] (Madras)

An assessment order under block assessment was issued to the assessee, imposing a tax liability of Rs. 68.14 lakhs. The assessee filed an appeal before the High Court, which was dismissed. A Special Leave Petition was then filed against that judgment, but it was also dismissed.

Meanwhile, following the issuance of the certificate under section 222, the Tax Recovery Officer issued an order of attachment regarding the immovable property of the assessee. Much later, based on a certificate for the recovery of Rs. 6.13 lakhs, another attachment order was issued. To recover these amounts, a proclamation of sale was issued in Form No. I.T.C.P. 13. The proclamation of sale was challenged in the writ petition.

The principal ground on which the assessee challenged the sale was that the limitation period of three years prescribed in Rule 68B of the Second Schedule of the Income-tax Act had expired. Therefore, it was contended that the attachment order is vacated by operation of law under sub-rule 4 of rule 68B.

The Madras High Court ruled that the three-year limitation period for tax recovery starts from the end of the financial year in which the tax demand becomes final under Chapter XX or conclusive under section 245-I. The dispute was whether finality was established on 22-8-2012, when the High Court dismissed the appeal, or on 15-5-2015, when the Supreme Court dismissed the SLP.

■ **Decision of the Case :**

The Court held that an order attains finality only when it is no longer capable of being set aside or modified. Although a statutory appeal to the Supreme Court could have been filed under section 261, the assessee

instead filed an SLP; nonetheless, the assessment order remained open to alteration until the disposal of the SLP. Therefore, finality was reached only on 15-5-2015.

Since this date fell in FY 2015-16, the limitation period ran from 31-3-2016 to 31-3-2019, and the sale proclamation issued on 12-6-2018 was within time.

The Court further held that failure to sell the property within the limitation period only results in the vacation of the attachment under Rule 65B(4) and does not extinguish the department's recovery rights. Although recovery under the second certificate was limited to Rs. 6.13 lakh, proceedings under the first certificate were within the limitation period. Accordingly, the writ petition was dismissed.

Delhi ITAT bench lacked jurisdiction to dismiss appeal transferred from Lucknow bench for administrative convenience : HC

■ **Facts of the Case :**

Sahara India Ltd vs. Income-tax Appellate Tribunal [2026] (Delhi)

The assessee had filed an appeal before the Tribunal, Lucknow Bench, against an order passed by the Commissioner (Appeals). Pursuant to a notice issued under section 127(2), the cases of the Sahara Group pending before various authorities were transferred to Delhi for administrative convenience. Consequently, the President of the Tribunal, in exercise of powers under rule 4 of the Income-tax (Appellate Tribunal) Rules, transferred the assessee's appeal from the Lucknow Bench to the Delhi Bench.

Thereafter, the Delhi Bench dismissed the appeal as well as the corresponding cross-objection on the ground that it lacked territorial jurisdiction to hear and decide the matter, while granting liberty to the parties to file fresh appeals before the Lucknow Bench. Aggrieved, the assessee filed writ petitions before the Delhi High Court challenging the dismissal of the appeals.



■ Decision of the Case :

The High Court held that the Delhi Bench was fully aware that the appeals had been transferred pursuant to the President of the Tribunal's administrative order. It held that once a matter is transferred from one Bench to another, no statutory authority, including the Tribunal, can overturn such an administrative order except a competent court examining its legality.

The Court further held that even if the Delhi Bench was of the view that it lacked territorial jurisdiction, it ought to have placed the matter before the President for appropriate directions, rather than dismissing the appeals and directing the parties to institute fresh proceedings. Such action amounted to setting the President's administrative order at naught and was unsustainable in law.

Accordingly, the High Court set aside the orders passed by the Tribunal and restored the matters to the file of the Delhi Bench to be decided on merits. The writ petitions were allowed in favour of the assessee.

Commissioner must follow binding ITAT Special Bench decision while deciding section 264 revision: HC

■ Facts of the Case :

Samir N. Bhojwani vs. Principal Commissioner of Income-tax - [2026] (Bombay)

The petitioner, an individual, filed an application under section 264 before the Principal Commissioner seeking revision of the tax treatment of capital gains computed under section 50. He contended that such gains were taxable at the rate prescribed under section 112 in view of the decision of the jurisdictional Tribunal Special Bench in SKF (India) (2024) 168 taxmann.com 328 (Mumbai - Trib.).

The Principal Commissioner, by order passed under section 264, declined to grant relief and refused to follow the Special Bench decision. Aggrieved by the order, the petitioner filed a writ petition to the Bombay High Court.

■ Decision of the Case :

The High Court held that the Commissioner completely misdirected himself by failing to follow the Tribunal's binding decision in SKF (India)

(supra). It is not for the Commissioner to decide whether the Tribunal was correct in its decision or not. Even though he may, in his personal opinion, believe the decision wrongly applied the law, he is bound to follow it. If lower authorities are permitted to disregard binding decisions because they believe those decisions are wrong, it would lead to complete chaos in the administration of tax laws.

Accordingly, the writ petition was allowed, and the impugned order passed under section 264 was set aside. The matter was remanded to the Commissioner to pass a fresh order on the assessee's application, following the decision of the Special Bench of the Tribunal in SKF (India).

Provision for anticipated salary revision allowable as accrued liability; consistent estimation supported deduction: ITAT

■ Facts of the Case :

Haffkine Bio Pharmaceutical Corporation vs. ACIT [2026] (Mumbai - Trib.)

The assessee, a Government of Maharashtra undertaking, has consistently followed the same method of creating provisions for salary revisions since the financial year 1976-77. It was bound to implement the Pay Commission's recommendations as and when sanctioned by the State Government.

During the relevant assessment year, the assessee created a provision for salary on account of the expected increase in annual personnel cost arising from the implementation of the Sixth Pay Commission. The matter reached the Mumbai Tribunal.

■ Decision of the Case :

The Tribunal held that the assessee consistently followed the same method of creating provisions towards salary revision since the financial year 1976-77, based on past experience and a reasonable estimation of the enhanced liability. The provision in question was created in respect of services already rendered by the employees during the relevant previous year, and only the quantification of the enhanced salary was deferred to a future date, subject to formal approval.

The liability, therefore, had accrued during the year under consideration and cannot be characterized as contingent in nature. The mere deferment of approval or payment does not render the liability contingent. In view of the consistent accounting practice followed by the assessee, the binding nature of the Pay Commission recommendations, and the settled legal position that a provision for an accrued but unquantified liability is allowable as a deduction, the disallowance of the provision was unjustified.

Delay in appeal condoned as illiterate assessee failed to notice final order; matter remanded for fresh adjudication : ITAT

■ Facts of the Case :

Muniyappa Prashanth Kumar vs. Income-tax Officer Ward 4(3)(3) [2026] (Bangalore - Trib.)

The assessee, a small milk vendor and having a limited educational background, did not file his return of income for the relevant assessment year under section 139(1) on an honest and bona fide belief that his income did not exceed the maximum amount not chargeable to tax.

During the assessment proceedings, the Assessing Officer (AO) found that the assessee had made huge cash deposits in his savings account. In addition, the assessee made payments to contractors. The AO taxed the entire cash deposits as unexplained money under section 69A and contractor payments as unexplained expenditure under section 69C in the absence of any reply from the assessee.

On appeal, the CIT(A) dismissed the appeal of the assessee by not condoning the delay in filing the appeal before him and not considering the case of the assessee on the merits. Aggrieved by the order, the assessee filed an appeal to the Bangalore Tribunal.

■ Decision of the Case :

The Tribunal held that the assessee filed the computation of income, along with a copy of the audited financials, and the acknowledgement of filing the audit report under section 44AB. The assessee vehemently argued that the assessee is a small milk vendor, and taxing the entire cash deposit amounting

to Rs. 1.05 crores, as well as the payment made to the contractor amounting to Rs. 4.22 lakhs, is highly unjustified.

It is an undisputed fact that the assessee could not represent his case before both the authorities below. The CIT(A) did not even consider the case of the assessee on merits and dismissed the appeal by not condoning the delay of 163 days in filing the appeal before him. It is opined that the assessee, being an illiterate person, on an honest and bona fide belief that the communication received is a mere notice and being unaware that the final appellate order has been passed, is a sufficient cause for filing the appeal belatedly before the CIT(A).

Accordingly, the delay in filing the appeal before the CIT(A) by 163 days is condoned. The entire issue in dispute is remitted to the AO's file for decision afresh in accordance with the law.

AO can't summarily reject assessee's valuation and LTCL arising from sale of shares: ITAT

■ Facts of the Case :

Asst. CIT, Circle 3.3.1 vs. Shapoorji Pallonji Solar Holdings (P.) Ltd. [2026] (Mumbai - Trib.)

The assessee company was engaged in the business of generating and supplying power and energy. Along with its holding company, the assessee decided to sell its entire shareholding in four group companies to a Singapore-incorporated company, part of the KKR group in the USA. The assessee received a total consideration of Rs. 39.25 crores, as against the purchase cost of shares at Rs. 202.19 crores. This resulted in a long-term capital loss (LTCL) of around Rs. 183 crores.

The assessee furnished voluminous documentary evidence to justify its claim of LTCL on the sale of shares, including a valuation report determining the valuation of the shares as on the date of sale. However, the Assessing Officer (AO) rejected the assessee's claim of LTCL primarily on the reasoning that the assessee failed to furnish the requisite documentary evidence. On appeal, the CIT(A) allowed the LTCL claim. Aggrieved by the order, the AO filed the instant appeal before the Tribunal.



■ Decision of the Case :

The Mumbai Tribunal held that the assessee had sold shares to a completely unrelated foreign entity. Therefore, it cannot be said that the sale of shares was made to generate a loss as part of a premeditated arrangement. When transactions are between unrelated parties, the cost of such transactions is determined through negotiation, taking into account various factors, including the net worth and profitability of the entity whose shares are transacted.

In this case, a careful analysis of the chart clearly demonstrated that the sale value per share of the companies exceeds their Net Asset Value (NAV) as of the date of sale. Further, the AO had not made any adverse observations with reference to the value determined by the independent valuer appointed by the assessee. Although the department had ample opportunities to challenge the assessee's share valuation at various stages, it failed to do so. Even the department had not furnished any material to demonstrate what, according to the department, would have been the value of shares as on the date of sale.

Without doing his homework, the AO cannot summarily reject the valuation of the assessee and the LTCL arising out of the sale of shares. Therefore, the impugned LTCL claim of the assessee was to be allowed.

Securitisation trust is revocable; income taxed to Security Receipt holders, not in trust's hands: ITAT

■ Facts of the Case :

Income-tax Officer vs. Arcil Retail Loan Portfolio - 001- A- Trust [2026] (Mumbai - Trib.)

The assessee was a securitisation trust constituted by an Asset Reconstruction Company (ARC) under the SARFAESI Act and RBI Guidelines. It filed its return of income, claiming exemption under sections 61 to 63 in the hands of Security Receipt holders.

During the proceedings, the Assessing Officer (AO) treated the assessee as neither a revocable nor a determinate trust; accordingly, he treated it as an Association of Persons (AOP) under section 2(31) and denied exemption under sections 61 to 63. On appeal, the CIT(A) deleted the additions.

The matter then reached the Mumbai Tribunal.

■ Decision of the Case :

The Tribunal held that the issue was whether the assessee-trust was liable to be assessed as an AOP and whether the trust was revocable or irrevocable for sections 61 to 63. Sections 61 to 63 form a self-contained code dealing with the taxation of income arising from revocable transfers. The legislative scheme is explicit that where the transferor retains the right to re-assume control over income or assets, such income cannot be assessed in the hands of an intermediary entity but must be taxed in the hands of the transferor.

Section 63 deliberately adopts a broad and inclusive definition of both "transfer" and "revocable transfer". The statute does not prescribe that revocation must be unilateral, unconditional, or exercisable by an individual contributor. What is required is a contractual or legal mechanism for the re-transfer of assets or the re-assumption of power.

On a plain reading of the trust deed, Security Receipt Holders were expressly conferred a right to revoke their contributions. Upon such revocation, the entire trust fund stands re-transferred to the Security Receipt Holders or their designees in proportion to their holdings, the scheme itself stands dissolved, the trustee ceases to act, and the Security Receipts stand extinguished. These provisions clearly satisfied both limbs of section 63(a).

The AO's contention that revocation requiring consent from a specified percentage of holders negates the bench has been expressly rejected by the coordinate bench. The statutory position was further clarified by the coordinate bench, observing that section 63 does not require that the power of revocation should be unconditional or exclusively vested in a single transferor, and that it is sufficient if the trust deed contains provisions vesting the power of revocation, even if such power is exercisable collectively or subject to specified conditions.

Further, once it was held that the trust was revocable, section 164 had no independent application. Sections 61 to 63 override section 164 in cases of revocable transfers. The AO's attempt to apply section 164, therefore, proceeded on an incorrect legal premise. Accordingly, the assessee could not be assessed as an AOP, as the beneficiaries were identifiable and the trust was statutorily mandated under the SARFAESI Act and RBI Guidelines, and Section 164 had no application.

Mere booking of flats without written, enforceable agreement not basis for PCM revenue recognition: ITAT

■ Facts of the Case :

SNN Spiritua Developer vs. Deputy Commissioner of Income-tax - [2026] (Bangalore - Trib.)

The assessee was a partnership firm and a sister concern of the SNN group, which was engaged in the real estate business. The assessee filed its return of income for the relevant assessment year, reporting income to tax of Rs. 1,49,35,860.

A search and seizure action under section 132 was carried out in the case of some entities, including the assessee. In response to the notice issued under section 153C, the assessee failed to file a return of income. Consequently, the Assessing Officer (AO) passed an order under section 144 and computed the income by rejecting the assessee's revenue recognition method.

The matter reached the Bangalore Tribunal.

■ Decision of the Case :

The Tribunal held that it was not in dispute that the assessee follows Accounting Standard 9 issued by ICAI read with the Guidance Note on Accounting for Real Estate Transactions. As per the said standard and guidance note, revenue can be recognised only when all significant risks and rewards of ownership are transferred. Such transfer is to be examined with reference to legally enforceable agreements and not merely on the basis of bookings or receipt of advances.

In the instant case, certain flats were merely booked during the year by receipt of token advances, and agreements for sale in respect of those flats were executed only in subsequent years. Mere booking of flats, without execution of a written and enforceable agreement, does not result in the transfer of significant risks and rewards. Therefore, the same cannot form the basis for recognising revenue under the Percentage Completion Method (PCM).

Further, paragraph 5.3 of the Guidance Note mandates that at least 10 per cent of the agreement value as per legally enforceable documents must be realised at the reporting date in respect of each flat. The assessee furnished a separate table showing flats that the AO

included for revenue recognition, even though the amount realised as of the reporting date was less than the prescribed 10 per cent of the agreement value. These facts have not been disputed by the Revenue.

The AO's approach of treating booking advances as equivalent to contracts merely because the booked area and consideration could be identified is not in accordance with the Guidance Note. The ability to estimate consideration or receipt of advances cannot substitute the mandatory requirement of a legally enforceable agreement or fulfil the specific conditions prescribed for revenue recognition.

AO must tax only net income after verifying genuine expenditure even if sec. 11 exemption denied: ITAT

■ Facts of the Case :

Adhi Ganesh Mandir Charitable Trust vs. Income-tax Department [2026] (Mumbai - Trib.)

The assessee-trust filed its return, claiming exemption under Section 11. Assessing Officer (AO) denied exemption on the ground that the assessee did not hold a valid registration under section 12A/12AB for the relevant assessment year. Accordingly, he brought to tax the assessee's entire receipts without allowing any deduction for expenditure.

On appeal, CIT(A) affirmed the action of AO. Aggrieved-assessee filed the instant appeal before the Tribunal.

■ Decision of the Case :

The Tribunal held that the assessee did not hold a valid registration under section 12A/12AB for the relevant assessment year. The claim of exemption under section 11 could not have been allowed for the said year. To this limited extent, the action of AO in denying exemption under section 11 does not call for any interference and stands on a firm statutory footing. However, the controversy does not rest merely on the denial of exemption under section 11, but extends to the manner in which the assessee's income was computed thereafter.

Even where an assessee-trust is not entitled to exemption under section 11 for a particular assessment year, the computation of income has to



be made in accordance with ordinary principles of commercial accounting, subject, of course, to the provisions of the Act. The denial of exemption does not confer an unfettered right upon the Revenue to assess gross receipts as income. The AO is duty-bound to examine the expenditure incurred wholly and exclusively for the purposes of earning such receipts and to determine the real income chargeable to tax. Any computation that proceeds to tax receipts without undertaking this exercise is fundamentally flawed.

In the instant case, the AO brought the entire receipts to tax without examining or verifying the expenditure reflected in the assessee's income and expenditure account. Such an approach is clearly unsustainable in law. The denial of exemption under section 11 does not automatically authorise the revenue to tax a trust's gross receipts. The computation must necessarily be confined to the net income, arrived at after allowing legitimate expenditure incurred in furtherance of the objects of the trust, unless such expenditure is specifically disallowable under the Act.

Accordingly, the matter was restored to the AO with a limited direction to recompute the income of the assessee after duly examining and verifying the expenditure claimed in the income and expenditure account and thereafter bringing only the net income, if any, to tax in accordance with the law.

AO can't summarily reject assessee's valuation and LTCL arising from sale of shares: ITAT

■ Facts of the Case :

Asst. CIT, Circle 3.3.1 vs. Shapoorji Pallonji Solar Holdings (P.) Ltd. [2026] (Mumbai - Trib.)

The assessee company was engaged in the business of generating and supplying power and energy. Along with its holding company, the assessee decided to sell its entire shareholding in four group companies to a Singapore-incorporated company, part of the KKR group in the USA. The assessee received a total consideration of Rs. 39.25 crores, as against the

purchase cost of shares at Rs. 202.19 crores. This resulted in a long-term capital loss (LTCL) of around Rs. 183 crores.

The assessee furnished voluminous documentary evidence to justify its claim of LTCL on the sale of shares, including a valuation report determining the valuation of the shares as on the date of sale. However, the Assessing Officer (AO) rejected the assessee's claim of LTCL primarily on the reasoning that the assessee failed to furnish the requisite documentary evidence. On appeal, the CIT(A) allowed the LTCL claim. Aggrieved by the order, the AO filed the instant appeal before the Tribunal.

■ Decision of the Case :

The Mumbai Tribunal held that the assessee had sold shares to a completely unrelated foreign entity. Therefore, it cannot be said that the sale of shares was made to generate a loss as part of a premeditated arrangement. When transactions are between unrelated parties, the cost of such transactions is determined through negotiation, taking into account various factors, including the net worth and profitability of the entity whose shares are transacted.

In this case, a careful analysis of the chart clearly demonstrated that the sale value per share of the companies exceeds their Net Asset Value (NAV) as of the date of sale. Further, the AO had not made any adverse observations with reference to the value determined by the independent valuer appointed by the assessee. Although the department had ample opportunities to challenge the assessee's share valuation at various stages, it failed to do so. Even the department had not furnished any material to demonstrate what, according to the department, would have been the value of shares as on the date of sale.

Without doing his homework, the AO cannot summarily reject the valuation of the assessee and the LTCL arising out of the sale of shares. Therefore, the impugned LTCL claim of the assessee was to be allowed.



TAX CALENDAR

INDIRECT TAX

20th February, 2026	GSTR – 3B (Jan, 2026)
	GSTR- 5A (Jan, 2026)
25th February, 2026	PMT - 06 (Jan, 2026)
28th February, 2026	Challan-cum-statements for specified TDS sections (26QB/26QC/26QD/26QE)
	GSTR – 11



E-PUBLICATIONS

Of

TAX RESEARCH DEPARTMENT

Guide Book for GST Professionals

Handbook for Certification for difference between GSTR-2A & GSTR - 3B

Impact of GST on Real Estate

Insight into Customs-Procedure & Practice

Input Tax Credit and In depth Discussion

Taxation on Co-operative Sector

Guidance notes on Preparation and Filing of Form GSTR 9 and 9C

Guidance Note on Anti Profiteering

Handbook on GST on Service Sector

Handbook on Works Contract under GST

Handbook on Impact of GST on MSME Sector

Assessment under the Income Tax Law

Impact on GST on Education Sector

International Taxation and Transfer Pricing

Handbook on E-Way Bill

Handbook on Filing of Returns

Handbook on Special Economic Zone and Export Oriented Units

For E-Publications, Please Visit Taxation Portal
<https://icmai.in/TaxationPortal/>

TAXATION COMMITTEES - PLAN OF ACTION

Proposed Action Plan:

1. Successfully conduct all Taxation Courses.
2. Publication and Circulation of Tax bulletin (both in electronic and printed formats) for the awareness and knowledge updation of stakeholders, members, traders, Chambers of Commerce, Universities.
3. Publication of Handbooks on Taxation related topics helping stakeholders in their job deliberations.
4. Carry out webinars for the Capacity building of Members - Trainers in the locality to facilitate the traders/ registered dealers.
5. Conducting Seminars and workshops on industry specific issues, in association with the Trade associations/ Traders/ Chamber of commerce in different location on practical issues/aspects associated with GST.
6. Tendering representation to the Government on practical difficulties faced by the stakeholders in Taxation related matters.
7. Updating Government about the steps taken by the Institute in removing the practical difficulties in implementing various Tax Laws including GST.
8. Facilitating general public other than members through GST Help-Desk opened at Head quarter of the Institute and other places of country.
9. Introducing advance level courses for the professionals on GST and Income Tax.
10. Extending Crash Courses on Taxation to Corporates, Universities, Trade Associations etc.

Disclaimer:

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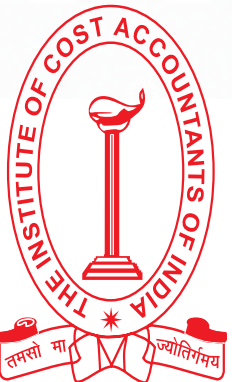
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