Mobility: Tax alert

February 2026

India

2026/27 Budget proposals impacting individual taxpayers

Executive summary

The Finance Minister of India presented the Finance Bill for the fiscal year 2026/27 (Bill) in the Indian Parliament on 1 February 2026, proposing changes to tax laws, effective from 1 April 2026 (unless specifically mentioned otherwise).

The proposed key amendments include:

- New income-tax bill
- Applicable income tax rates
- Increased investment methods for Persons Resident Outside India (PROI)
- Exemption for non-resident experts providing specified services in India
- Foreign Assets of Small Taxpayer Disclosure Scheme, 2026
- Rationalisation of Tax Collection at Source (TCS)
- Taxability of buy-back of shares
- Set-off of interest expense
- Extension of timeline for revised return of income
- Integration of assessment and penalty proceedings
- Relaxation of prosecution provisions for foreign assets
- Rationalisation of baggage provisions for travel to India

New income-tax bill

A new income tax bill was introduced in 2025 which aimed to simplify understanding by taxpayers and the tax administration, leading to greater tax certainty and reduced litigation. This bill will be implemented from 1 April 2026.

Applicable income-tax rates

The income tax rates remain unchanged both under the old tax regime and new tax regime. The income tax rates are as follows:

Income (in US$*) – Approximately	Old tax regime tax rate (%)	New tax regime tax rates (%)
Up to 2,727	NIL	NIL
2,728 - 4,363	5%	NIL
4,364 - 5,454	5%	5%
5,455 - 8,726	20%	5%
8,727 - 10,908	20%	10%
10,909 - 13,089	30%	10%
13,090 - 17,452	30%	15%
17,453 - 21,815	30%	20%
21,816 - 26,178	30%	25%
Above 26,178	30%	30%

1US$= INR 91.68

Increased investment methods for Persons Resident Outside India (PROI)

It is proposed to increase the investment limit for an individual PROI to invest in equity instruments of listed Indian companies under the Portfolio Investment Scheme from 5% to 10%, with an overall investment limit for all individual PROIs at 24%.

Exemption for non-resident experts providing specified services in India

Individuals who have been non-resident for five consecutive tax years immediately preceeding the year in which he visits first time to India will be entitled to a tax exemption where certain services are performed as notified by the Central Government. The exemption will apply for five consecutive tax years and relates to income which accrues or arises outside India and is not deemed to accrue or arise in India.

Foreign Assets of Small Taxpayer Disclosure Scheme, 2026

Foreign Assets of Small Taxpayer Disclosure Scheme, 2026 has been introduced for individuals:

A. Who did not disclose their overseas income or assets and
B. Who disclosed their overseas income and paid the applicable tax but have not declared the overseas asset concerned.

- For category (A), the limit of undisclosed income and assets is proposed to be up to INR10,000,000 (US$109,075). The amount payable is dependent on whether there is undisclosed income or assets or both (i) 30 percent of value of the undisclosed asset as on 31 March 2026, (ii) 30 percent of undisclosed income, and an amount equal to 100% of the additional tax as determined in (i) and (ii). Immunity would be granted from prosecution.

- For category (B), where the value of the undisclosed asset is up to INR50,000,000 (US$545,375), a fee of INR 100,000 (US$1,090) would payable, and immunity would be granted from both penalty and prosecution

Rationalization of Tax Collected at Source (TCS)
Currently, TCS under the liberalised remittance scheme in respect of an overseas tour program is collected at the rate of 5% and 20% (20% where the amount collected is in excess of INR1,000,000 (US$10,907). It is proposed to reduce these rates to 2% without any spend limit. Further, TCS on remittance for education and medical treatment is also proposed to be reduced from existing rate of 5% to 2%

Taxability of buy-back of shares
Under existing provisions, consideration received by a shareholder on buy-back of shares by a company is treated as dividend income. It is proposed to rationalise the taxation of share buy-backs by providing that consideration received on a buy-back shall be chargeable to tax as capital gains. This would facilitate a lower tax burden for shareholders. However, promoters will need to pay additional tax of 10%/17.5% in addition to the applicable capital gains tax.

Set-off of interest expense
It is proposed that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds with effect from 1 April 2026.

Extension of timeline for revised return of income
Currently, the deadline to file a revised return of income is 31 December following the end of the tax year. It is proposed to extend this deadline to 31 March following the end of the tax year, after payment of nominal fee of INR1,000 (US$ 11) for total income not exceeding INR500,000 (US$5,454)/INR5,000 (US$55) in any other case.

Integration of assessment and penalty proceedings
Under existing provisions, penalty proceedings are initiated after conclusion of assessment proceedings. However, there remains uncertainty regarding the status of penalties as such proceedings may stretch over multiple years. To simplify matters, it is therefore proposed that a common order be issued for assessment and penalty proceedings.

Relaxation of prosecution provisions for foreign assets
Currently, when a taxpayer fails to furnish a return of income with foreign assets and/or income, or fails to provide in the return of income information related to foreign assets and/or income, this is punishable by imprisonment of a minimum of six months and up to seven years. It is proposed that the prosecution provisions shall not apply in respect of foreign assets, other than immovable property, where the aggregate value does not exceed INR2,000,000 (US$ 21,815). The amendment is proposed to be retrospective from 1 October 2024.

Rationalisation of baggage provisions for travel to India
Baggage Rules 2026 would replace the existing Baggage Rules, 2016 with effect from 2 February 2026. People travelling to India need to be vigilant of the new rules pertaining to various entitlements for bringing luggage/goods to India.

Next steps
The provisions of the Bill will not become law until approved by both houses of the Indian Parliament and receive assent from the President of India. Once approved, the provisions will apply for the 2026/27 Indian fiscal year (1 April 2026 to 31 March 2027), unless specified otherwise.

Individuals should review the proposed provisions and note in particular those which will be implemented in full.

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