

## 2026 Mobility Budget Alert

### **Introduction**

The Finance Minister ('FM') presented the Union Budget 2026 in the Parliament on February 1, 2026. The budget's focus was to accelerate and sustain economic growth and build resilience to volatile global dynamics. The budget proposals prioritize economic reforms to create a supportive ecosystem for overall development.

From a mobility tax standpoint, we have highlighted the key proposals in the paragraph below. Unless specified otherwise, the budget proposals discussed in following paragraphs will take effect from April 1, 2026.

### **Key budget proposals**

- Applicability of the New Income-tax Act

The Income-tax Act, 2025, is a comprehensive and simplified law which will replace the age-old Income-tax Act, 1961. It was passed in the parliament on August 21, 2025 and is proposed to come into effect from April 1, 2026 ie., tax year 2026-27.

- Foreign asset/income disclosure scheme

The FM has proposed to introduce a time-bound scheme for declaration of foreign assets and/or income for small taxpayers to facilitate voluntary compliance and provide relief for genuine cases of inadvertent non-disclosure. The scheme would be applicable to the following categories of taxpayers:

- Category I – resident taxpayers who haven't disclosed foreign income or asset(s). On reporting the omissions, tax would be levied at 30 percent of the value of undisclosed foreign income or asset along with an equal amount of additional income tax in lieu of penalty. Taxpayers can elect to report under this scheme only if the aggregate

undisclosed asset value and income is INR 10 million or less for the respective tax year.

- Category II – resident taxpayers who have disclosed foreign income and/or paid the corresponding taxes but failed to disclose the underlying foreign asset. On reporting the omissions, a fee of INR 100,000 is proposed to be levied with respect to the non-disclosure. Taxpayers can elect to report under this scheme only if the undisclosed asset value is INR 50 million or less.

The original return will not need to be revised but a declaration would need to be filed along with payment of tax/fee on or, as per form and dates prescribed.

This proposal provides a limited-period opportunity for taxpayers to declare undisclosed foreign assets/income and obtain immunity from penalty and/or prosecution.

- Immunity from prosecution for inadvertent non-disclosure of foreign assets

Presently, the Black Money Act provides for prosecution, rigorous imprisonment and fine for non-disclosure of foreign assets by resident taxpayers in the India tax returns.

The FM has proposed to provide relief in cases of minor and inadvertent non-disclosures. The provisions of the Black Money Act would be amended to provide immunity from prosecution towards non-disclosure of foreign assets (other than immovable property), where the aggregate value does not exceed INR 2 million per year. This amendment will apply retrospectively from October 1, 2024.

Although the qualifying quantum is low, this is a welcome change as it will help reduce litigation in cases where the foreign asset value is nominal.

## 2026 Mobility Budget Alert

- Changes to tax return filing timelines

Presently, the due date for filing a business tax return where an audit is not required is July 31<sup>st</sup>. The FM has proposed extending the due date of such filings to August 31<sup>st</sup>. The due date for filing regular salaried tax return would continue to be July 31<sup>st</sup>.

The FM has also proposed extending the deadline for filing a revised tax return from December 31<sup>st</sup> to March 31<sup>st</sup> with payment of a nominal late fee.

This is a welcome change as this gives additional time for taxpayers to make amendments to the tax return for a foreign tax credit claim based on their foreign tax returns. Also, taxpayers filing a belated return in December would have additional time to revise the return, if required.

- Amendments to provisions relating to updated return

The FM has proposed the following amendments in the updated return filing scheme:

- Filing an updated return will be permitted even in cases where the taxpayer's tax loss is reduced from that in the original return.
- Filing an updated return will also be permitted pursuant to receipt of a tax notice for reassessment proceedings with payment of additional income tax of 10 percent on aggregate tax and interest, subject to notice timelines.

This amendment will take effect from October 1, 2026.

This is a welcome change as it increases the scope of filing an updated return by the taxpayer.

- Rationalization of tax rate on unexplained income

Presently, unexplained credits, investments, assets and expenditures are taxed at 60 percent and a penalty of 10 percent of the tax amount is also applicable.

The FM has proposed to reduce the tax rate from 60 percent to 30 percent with no additional penalty.

This is a welcome change as it aligns the tax rate of such income to that of regular income.

- Rationalisation of penal provisions

The FM has proposed the following rationalisation measures for penal provisions:

- As per the existing provisions, assessment and penalty orders are issued in separate proceedings. This leads to extended litigation and appeals process as well as additional costs for the taxpayer.

The FM has proposed to rationalise this by combining the assessment and penalty proceedings and have the tax office issue a single combined assessment and penalty order.

- As per the existing provisions, a pre-payment of 20 percent of demand is required if the taxpayer wants to file an appeal against the assessment order where demand is raised. The FM has proposed to reduce the quantum of pre-payment from 20 percent to 10 percent. Also, the pre-payment is proposed to be calculated on the core tax demand and not additional charges like interest and penalty.

## 2026 Mobility Budget Alert

- The FM has proposed that no interest liability will be levied on the penalty amount for the period of appeal before the first appellate authority irrespective of the outcome of appeal.

These are welcome changes as there will be greater simplicity as well as time and monetary relief to the taxpayers.

- Amendments to prosecution provisions

The FM has proposed the following amendments to prosecution provisions:

- Presently, immunity from penalty or prosecution is granted in cases of under-reporting of income where tax and interest as per the assessment order is paid and no appeal is filed.

The FM has proposed to grant immunity even to cases of under-reporting as a consequence of misreporting, subject to payment of additional tax of 100 percent of the tax payable on such income in lieu of penalty.

- In case of unexplained credits, assets, investments, or expenditures, immunity is proposed to be granted on payment of additional tax at the rate of 120 percent of the tax payable on unexplained income in lieu of penalty.

These changes allow the taxpayers to pay an additional tax to remove the burden of prosecution proceedings.

- Miscellaneous proposals

Relaxation from requirement to obtain Tax Deduction/Collection Account Number

The FM has proposed to do away with the requirement for a resident individual/Hindu Undivided Family to obtain Tax Deduction/Collection Account Number to deduct tax at source towards purchase of immovable property from non-residents.

Rationalisation of tax on excess employer provident fund contributions

The FM has proposed to remove the provision of specifically taxing the employer contribution, exceeding of 12 percent, to the Employee Provident Fund scheme and align it to the overall individual retiral benefits monetary ceiling of INR 750,000 per year.

Relaxation in Tax Collection at Source rates on remittances

The FM has proposed to reduce the tax collection at source rates on remittances under the Liberalized Remittance Scheme for education or medical treatment from 5 percent to 2 percent and on overseas tour packages from 5 percent/20 percent to 2 percent.

Increase in Securities Transaction Tax rates

The FM has proposed to increase the Securities Transaction Tax on derivative instruments as follows -

Type of instrument	Present rate	Proposed rate
Sale of futures contract	0.02 percent	0.05 percent
Sale of options contract	0.10 percent	0.15 percent
Exercise of options contract	0.125 percent	0.15 percent

## 2026 Mobility Budget Alert

### Lower or NIL tax withholding certificates

The FM has proposed to introduce a facility for online filing of applications for lower/nil withholding certificates to ease the compliance burden of small taxpayers.

### **Conclusion**

The budget proposals would be ratified only after both the Houses of Parliament and the President give their assent.

We recommend the clients to consider evaluating the impact of these proposals and take action, as required.

### About us

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**Broadening Horizons** partners with international expatriate tax firms for delivering mobility services and therefore, can provide cross-border services and solutions.

For more details, please contact the following personnel:

Vikas Garg - Head of Services  
[vikasgarg@bhspl.com](mailto:vikasgarg@bhspl.com)

Jignesh Parekh - Manager  
[jigneshparekh@bhspl.com](mailto:jigneshparekh@bhspl.com)

Apurva Patil - Manager  
[apurvapatil@bhspl.com](mailto:apurvapatil@bhspl.com)

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