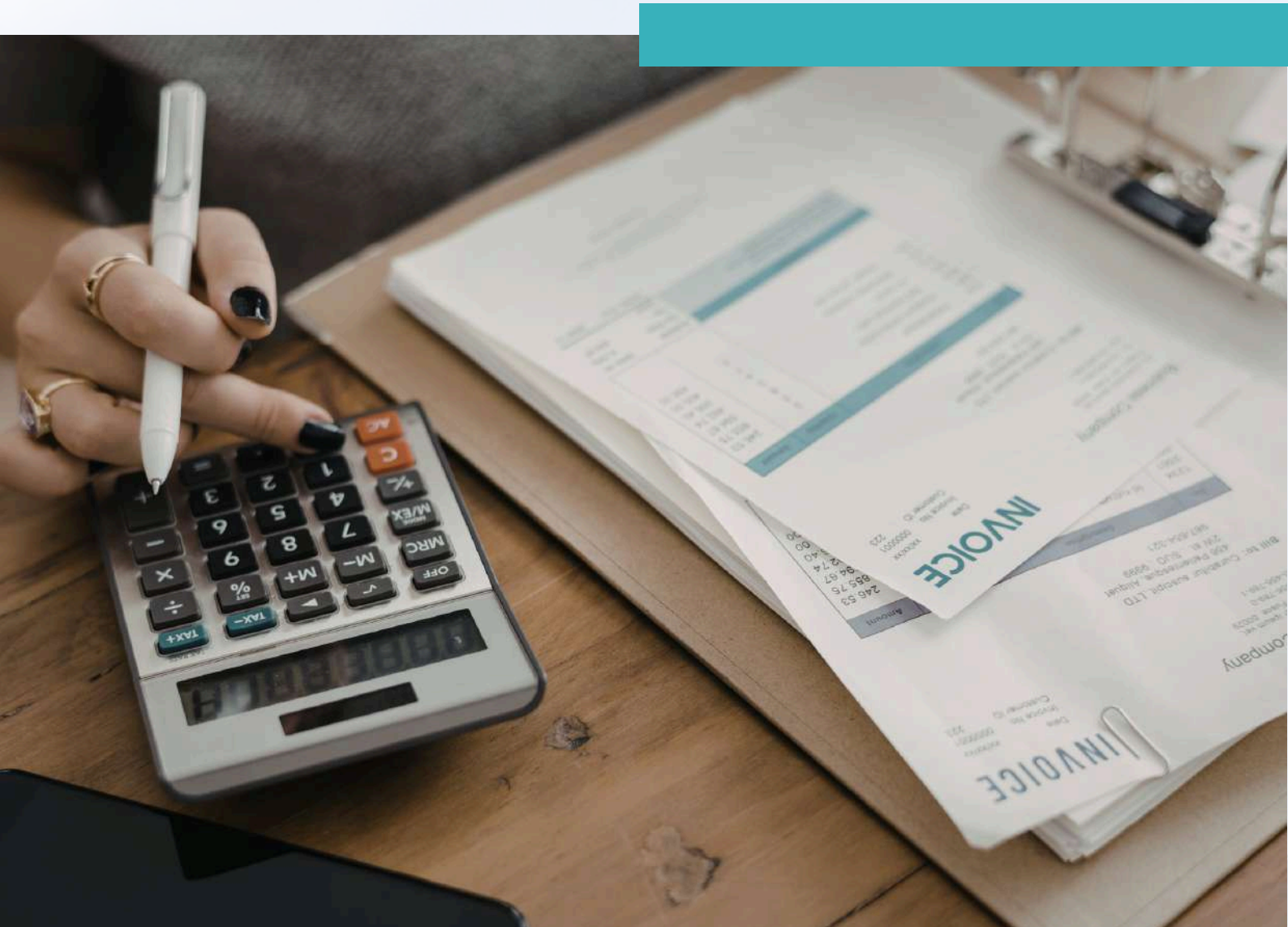


FINANCE ACT 2026



**Key Changes as it
transitioned from Bill to Act**



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Tax Alert

Finance Act 2026 – Key Changes as it transitioned from Bill to Act

The Finance Bill, 2026 received the assent of the Hon'ble President after which the Finance Act 2026 has been notified, bringing changes to tax rules for the upcoming fiscal year, completing the budgetary process.

While tax rates remain unchanged, the Act introduces significant structural, procedural, and interpretational changes impacting corporates, startups, and individual taxpayers.

This alert provides a concise, yet detailed overview of the key amendments made to the bill at the time of passage.

1. Buyback of Securities – Taxation Amendments

- The Finance Bill, 2026 shifted buyback taxation from dividend to capital gains regime by:
 - ↳ Omitting Section 2(40)(f) of the Income-tax Act, 2025 (corresponding to Section 2(22)(f) of ITA 1961)
 - ↳ Substituting Sections 69(2) and 69(3) (corresponding to Section 46A of ITA 1961)
- Specific Additional Tax proposed for promoters in the following manner
 - ↳ Tax payable under the capital gains provisions; and
 - ↳ An additional tax.

- In a manner that the total tax on buy-back of shares (i.e. aggregate of (i) and (ii)) shall be at the rate of:

- ↳ 22 per cent, for promoters being the domestic companies.
- ↳ 30 per cent, for promoters being other than domestic companies.



- Now, as the act is notified, Section 3(6) clarifies that:
 - ↳ A flat surcharge of 12% applies on the additional tax under Section 69
 - ↳ Applicable irrespective of total income thresholds
- This surcharge is distinct from:
 - ↳ 15% cap applicable to specified capital gains/dividend income
 - ↳ Up to 37% surcharge applicable on normal income
- Accordingly, buyback-related additional tax now falls under a separate surcharge regime (12% flat).

2. Restriction of Additional Tax to Buybacks under Section 68, Companies Act, 2013

- Amendment to Section 69(2) clarifies that additional tax applies only where buyback is undertaken under Section 68 of the Companies Act, 2013.
- Other routes for acquisition of shares (e.g., Sections 230–232, 235, 242(2)(b)) are excluded from additional tax applicability.



3. Startup Tax Incentives – Expanded Eligibility

- Turnover threshold for eligible startups increased from ₹100 crore → ₹300 crore
- The scope has been aligned to include emerging and deep-tech sectors, consistent with the DPIIT recognition norms.

Implication: Significantly expands the pool of startups eligible for tax benefits, encouraging innovation-led sectors.

4. Minimum Time Limit for Response to Reassessment Notices

- Under Section 148 of the Income-tax Act, 1961, an assessee is required to file a return in response to a reassessment notice within the time specified therein.
- The law prescribed only a maximum time limit of three months from the end of the month in which the notice is issued.
- No minimum time limit was specified, resulting in instances of very short response periods.
- The Finance Act, 2026 amended:
 - ↳ Section 148 of the Income-tax Act, 1961; and
 - ↳ Section 280 of the Income-tax Act, 2025
- Introduced a minimum response period of 30 days for furnishing a return in response to reassessment notices.

Implication:

- Addresses concerns around unreasonably short compliance windows
- Provides taxpayers with adequate time to prepare and submit responses
- Likely to reduce disputes relating to insufficient opportunity of being heard

5. Validation of Electronic Approvals

- Courts have invalidated approvals on the following grounds:
 - ↳ Mechanical approvals lacking demonstrable application of mind
 - ↳ Authentication defects, including absence of signature, date, or non-compliance with Section 282A of the Income-tax Act, 1961 and Rule 127A of the Income-tax Rules, 1962
- Even electronically issued approvals have been struck down on these bases
- Finance Bill, 2026 (Lok Sabha) introduces:
 - ↳ **Section 292BC** in the Income-tax Act, 1961
 - ↳ **Section 522(3)** in the Income-tax Act, 2025
- Provides validation of electronically issued approvals, notwithstanding:
 - ↳ Absence of detailed reasoning
 - ↳ Deficiencies in authentication, including digital signature

Implication:

- Safeguards proceedings from invalidation on procedural/technical grounds
- Addresses ongoing litigation concerning validity of digital approvals.
- May raise concerns regarding dilution of procedural safeguards and scrutiny standards.



6. Electronic Transmission of ITAT Orders

- Under Section 254(3) of the Income-tax Act, 1961, ITAT orders are required to be communicated to:
 - ↳ The assessee, and
 - ↳ The jurisdictional Principal Commissioner / Commissioner (PCIT/CIT)
- The mode of transmission to authorities was not fully standardised.
- A new Section 254(3A) has been inserted (effective 1 October 2026), mandating that:
 - ↳ ITAT orders must be electronically transmitted to the jurisdictional PCIT/CIT.
 - ↳ Transmission must occur via the designated portal.



- The assessee will continue to receive the order through existing channels
- Corresponding amendment under the Income-tax Act, 2025:
 - ↳ Section 363(10) (substituted), effective 1 April 2026
 - ↳ Introduces the same requirement of electronic transmission via designated portal

Implication:

- Introduces a standardised digital communication channel between ITAT and tax authorities
- Enhances administrative accountability and traceability.

7. Rationalisation of Tax Recovery Powers – Removal of Arrest Provisions

- Under Section 222 of the Income-tax Act, 1961, the Tax Recovery Officer (TRO) could issue a certificate (Form No. 57) for recovery of tax arrears.
- Recovery could be effected through multiple modes, including:
 - ↳ Attachment and sale of movable property
 - ↳ Attachment and sale of immovable property
 - ↳ Arrest and detention of the assessee
 - ↳ Appointment of a receiver for property management
- These recovery mechanisms could be pursued simultaneously.
- The Finance Act, 2026 01 April 2026, provides that:
 - ↳ The mode of **“arrest and detention in prison”** is omitted from Section 222



- Corresponding amendments have been made to:
 - ↳ The **Second Schedule** (Procedure for Recovery of Tax)
 - ↳ **Section 413 of the Income-tax Act, 2025**
- All references to **arrest and detention** in the recovery framework have been removed.

Implication:

The TRO will no longer have the power to arrest or detain taxpayers for recovery of tax dues

- Recovery will be restricted to civil enforcement mechanisms (attachment, sale, receivership)
- Reflects a policy shift toward non-custodial, asset-based recovery processes.

8. Interest on Refunds and Payment Defaults – Transition Framework Clarified

- Section 536 of the Income-tax Act, 2025 governs the transition following repeal of the Income-tax Act, 1961 (effective 1 April 2026).
- Ongoing proceedings, rights, and obligations under the erstwhile law continue.
- Ambiguity existed regarding interest computation for earlier tax years where refunds or payments arise post-transition.

- Amendment to Section 536(2)(g) clarifies the computation of interest for Tax years prior to 1 April 2026, where refunds or payments are made on or after that date
- Prescribes a hybrid approach:
 - ↳ Computation mechanism: As per the Income-tax Act, 1961
 - ↳ Applicable rate: As per corresponding provisions of the Income-tax Act, 2025
 - ↳ Revised rate applies from the date of its modification under the new law



Implication:

- Provides clarity on interest treatment during the transition period
- Ensures continuity of the existing computational framework while aligning rates with the new regime
- Impacts pending assessments, refunds, and recovery cases spanning both regimes

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