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Taxation and Other Laws (Amendment) Bill, 2026

With a view to mitigate the impact of external economic headwinds, provide stability to the domestic economy and support key sectors of strategic importance, the Government has introduced the Taxation and Other Laws (Amendment) Bill, 2026 ('**the Bill**') [*in supersession of the earlier Income Tax (Amendment) Ordinance, 2026*]. The Bill, as passed by the Lok Sabha on 6.08.2026, proposes amendments, inter-alia, to the Income-tax Act, 2025 ('2025 Act').

Key features of the aforesaid amendments are set out below:

Amendments to existing clauses of 2025 Act [w.e.f. 01.04.2026]:

1. **Rationalisation of conditions for eligible investment fund under section 9(12) read with Schedule I of the Act**

Existing Clause	Proposed amendments	Rationale
Section 9(12) provides that fund management activity carried out by an eligible investment fund through eligible fund manager shall not constitute business connection in India. Conditions to be satisfied are as per Schedule I. Schedule I presently prescribes 13 conditions to be satisfied by an eligible investment fund to claim benefit.	Schedule I is proposed to be substituted with new schedule wherein 13 existing eligibility conditions for the investment fund are reduced to 5. The 5 conditions are: (i) the fund is not resident in India; (ii) it is resident in a treaty country/ notified jurisdiction; (iii) aggregate investment by Indian residents therein does not exceed 5% of corpus; (iv) Fund does not carry on or control and manage any business in India; and (v) no person acting on behalf of the fund creates a business connection in India other than the eligible fund manager.	The amendment seeks to rationalise the eligibility framework so as to encourage relocation of fund management activity to India without exposing offshore funds to an unintended business connection risk in India.

2. Extension of exemption for foreign companies providing capital goods/ equipment to contract manufacturers [Sl. No. 13A of Table in Schedule IV of the Act]

Existing Clause	Proposed amendments	Rationale
Income of a foreign company arising from providing capital goods, equipment or tooling to an Indian contract manufacturer for manufacture of specified electronic goods is presently exempt up to tax year 2030-31.	The exemption period is proposed to be **extended for a further period of 10 years, i.e., upto tax year 2040-41** Further, the term **specified electronic goods,** is proposed to be defined to mean- (a) mobile phones; or (b) laptops, all-in-one personal computers and tablets; or (c) servers and ultra-small form factor (USFF) devices; or (d) sub-assemblies to the finished goods mentioned in clauses (a) to (c); or (e) hearables and wearables and accessories related to finished goods mentioned in clauses (a) to (c).	The proposed amendment seeks to continue incentivizing contract manufacturing arrangements in India and provide clarity by defining the scope of eligible electronic goods.

3. Rationalisation of Exemption for Foreign Companies Procuring Data Centre Services from Specified Data Centres [Sl. No. 13C of Table in Schedule IV of the Act]

Existing Clause	Proposed amendments	Rationale
Income of a foreign company arising from procuring data centre services from a specified data centre in India is presently exempt up to 31 March 2047. Above exemption is subject to certain conditions, including:	It is now proposed as under (i) Condition requiring notification of the foreign company is proposed to be omitted; (ii) A specified data centre can now also be operated under a leased model, subject to prescribed conditions.	To enhance ease of doing business and provide greater operational flexibility, the law has been amended to provide that data centre operators may, instead of owning, take the data centre on lease and operate the same, thereby addressing practical

Existing Clause	Proposed amendments	Rationale
- notification of the foreign company and the specified data centre, and - ownership and operation of such data centre by an Indian company.		challenges faced by the industry.

4. **Extension of dividend exemption to unit holders of business trusts [Sl.No. 5 of Table in Schedule V of the Act]**

Existing Clause	Proposed amendments	Rationale
Under the existing provisions, dividend income distributed by a business trust to its unit holders is exempt where the dividend is received from an SPV which has not opted for the concessional corporate tax regime. Where the underlying SPV has opted for the concessional corporate tax regime (CTR) under sections 200/201, the exemption is presently denied and the dividend income becomes taxable in the hands of the unit holders.	In order to address the disparity in taxability of dividend income based on the taxation regime opted for by the SPV and ensure tax neutrality, clause (b) of Schedule V of the Act is proposed to be omitted. Consequently, dividend income distributed through a business trust shall continue to remain exempt in the hands of the unit holders irrespective of the fact whether the underlying SPV has opted for CTR or not.	This measure seeks to provide uniform tax treatment to investors in business trusts and eliminate unintended tax consequences arising from the tax regime chosen by the SPV.

5. **Levy of additional surcharge on specified SPVs referred to in Schedule V of the Act**

Existing Clause	Proposed amendments	Rationale
Under the existing provisions of the Act, the SPVs opting for concessional tax regime are subject to surcharge at the rate of 10%	The rate of surcharge levied on income of SPVs opting for concessional taxation regime provided for in section 200 and 201 is proposed to be increased from 10% to 25%.	The additional surcharge seeks to balance the extended dividend exemption for business trust unit holders by increasing the tax burden at the SPV level.

Introduction of new clauses in Schedule IV of the Act

1. **Sl. No. 13D and 13E – Exemption to Foreign Institutional Investors ('FIIs') and the Bank for International Settlements ('BIS')**

- Income derived by any Foreign Institutional Investor or Bank for International Settlements from Government Securities, be it interest earned thereon or capital gain arising from sale/ exchange/ transfer thereof, is proposed to be exempted from tax, subject to furnishing of information in such form and manner, as may be prescribed.

2. **Sl. No. 13F – Exemption to foreign mining companies engaged in business of selling rough diamonds**

- Income derived by an eligible foreign company from sale of rough diamonds carried out in Notified Special Zone (SEZ in Surat and Mumbai), is proposed to be exempted from tax, subject to furnishing of information in such form and manner, as may be prescribed.

- Eligible foreign company is specified to be either:
  (a) engaged in the business of diamond mining; or
  (b) being a sightholder of company referred to in clause (a); or
  (c) being a broker, aggregator, or tender and auction entity connected with sale of rough diamonds.

- Such exemption is proposed to be available upto tax year ending on 31st March 2041

- The amendment is proposed to be effective w.e.f. 01.10.2026

3. **Sl. No. 13G – Exemption to foreign company storing component for sale to a contract manufacturer involved in manufacturing of specified electronic goods**

- Income derived by an eligible foreign company from sale of components stored in a warehouse in a custom bonded area, is proposed to be exempted from tax, subject to furnishing of information in such form and manner, as may be prescribed.

- Eligible foreign company is specified to be a foreign company which stores components in a warehouse in a custom bonded area for providing them to a contract manufacturer to be used for specified electronic goods.

- The contract manufacturer should produce electronic goods on behalf of any foreign company.

- Specified electronic goods are defined to be either

    (a) mobile phones; or
    (b) laptops, all-in-one personal computers and tablets; or
    (c) servers and ultra-small form factor (USFF) devices; or
    (d) sub-assemblies to the finished goods mentioned in clauses (a) to (c); or
    (e) hearables and wearables and accessories related to finished goods mentioned in clauses (a) to (c).

- Such exemption is proposed to be available upto tax year ending on 31st March 2041

- The amended is proposed to be effective w.e.f. 01.10.2026

OUR COMMENTS

- The proposed amendments are largely investor-friendly seeking to provide greater tax certainty and encouraging foreign investment in India.

- The focus seems to be on simplified compliance and providing continued policy support to encourage manufacturing in the country.

For any clarifications, please write to:

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