



# India Union Budget 2026-27

**Sovereign Wealth Funds and Pension Funds**

**#UnionBudget2026**

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February 2026

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# Key Tax Proposals

The Honourable Finance Minister (FM) of India, Ms. Nirmala Sitharaman tabled the Union Budget 2026 before the Parliament on 1 February 2026.

Last year the Honourable FM presented the Finance Bill 2025 in the parliament which has now been enacted as Income-tax Act, 2025. Union Budget 2026 marks a structural transition year for India's tax framework, being the first Budget presented under the Income-tax Act, 2025.

The theme of Budget 2026 is centered on fostering economic growth, supporting key sectors, and creating a fair, efficient, and simplified tax system aligned with India's development goals and global competitiveness

The Budget maintains broad tax stability for Sovereign Wealth Funds (SWFs) and Pension Funds (PF), with no changes to tax rates, except for amendment relating to buyback taxation and Securities Transaction Tax (STT).

With the above background, we have summarised key changes which are set to impact the SWFs and PFs below:

## Tax on income arising on account of buyback of shares

- Under the current tax framework, the amount received by a shareholder on buy-back of shares is treated as dividend income and taxed accordingly.
- Separately, the cost of acquisition of shares cancelled on buy-back is allowed as a capital loss.
- It is now proposed that the treatment of gains on buyback of shares be reversed

to capital gains from erstwhile deemed dividend / capital loss regime.

- However, an additional tax levy has been introduced for promoter shareholders\*. The effective tax rate considering the additional tax levy is as under:

Nature	Non - Promoter	Promoter is a domestic company	Promoter is a not domestic company
STCG on listed shares	20%**	22%**	30%**
STCG on unlisted shares	Slab rates / applicable rates	Slab rates / applicable rates	Slab rates / applicable rates
LTCG on listed / unlisted shares	12.5%**	22%**	30%**

\* Promoter is defined to mean (i) in case of listed entities – as defined SEBI (Buy-back of securities) Regulations, 2018 (ii) in case of unlisted entities – promoter as defined under the Companies Act 2013 or a person who holds directly or indirectly, more than 10% shareholding in the company

\*\*tax rates are exclusive of applicable surcharge and cess

*This change will take effect from tax year\* 2026-27*

\* In the Income-tax Act, 2025, the terms "assessment year" and "previous year" replaced with "tax year" defined as period from 1 April to 31 March

## Amendment in rates of STT levied on the value of taxable securities transactions

- STT levied on sale of options in securities, proposed to be increased from 0.10 per cent to 0.15 per cent of the option premium.
- STT levied on sale of exercised option, proposed to be increased from 0.125 per cent to 0.15 per cent of the intrinsic price.
- STT levied on sale of futures in securities, proposed to be increased from 0.02 per cent to 0.05 per cent of the traded price.

While the proposal is aimed at cooling, high-volume derivatives trading, it will increase transaction cost for high frequency traders, arbitrageurs, and derivative-focused SWFs/PFs registered as Foreign Portfolio Investors

This change will take effect from tax year 2026-27.

## Enhancement of Tax Incentives for IFSC Units

- At present, IFSC units (including fund management entities) are eligible for a deduction of 100 per cent of its business income for 10 consecutive years out of 15 years.
- In order to provide greater stability and predictability to IFSC units it is proposed to extend the deduction period to 20 consecutive years out of 25 years

- After 20 years, the business income of these units arising from IFSC activities to be taxed at a concessional rate of 15 per cent indefinitely which is significantly lower than the applicable tax for other Indian corporate in mainland India
- For units commencing operations on or after 1 April 2026, aforesaid deduction to be allowed only if the unit is not formed by splitting up, reconstruction, reorganisation, or transfer of an existing business in India.
- Further, Deemed Dividend Exemption to be curtailed - loans and advances by Finance Company/Unit to Indian borrowers may be subject to deemed dividend levy (except where lending is substantial part of the business)

This change will take effect from tax year 2026-27

## Extension of time limit to file revised return of income

Timeline to file revised return as per below table:

Present	Proposed
Within 9 months from the end relevant tax year	Within 12 months from the end relevant tax year*

\* If the originally filed return is revised after the initial nine-month period, a fee of INR 1,000 (where total income does not exceed INR 500,000) or INR 5,000 will be payable.

This change will take effect from tax year 2025-26



The Budget aims to rationalize penalties, prosecution, and litigation to reduce compliance burdens and align tax provisions with current economic needs

## Consolidation of Assessment Order and Penalty Order

In order to prevent multiple proceedings on the same matter, it is proposed that a common order for both assessment and penalty for under-reporting and misreporting of income to be passed by the Assessing Officer.

This change will take effect from 1 April 2027

## Tax Demand Pre-Payment Reduced to 10 per cent

It is proposed that the quantum of pre-payment of the tax demand to be reduced from 20 per cent to 10 per cent and to be calculated only on core tax demand. The income-tax department will be issuing notification/ clarifications in this regard

This change will take effect from 1 April 2027

## Amendment to Updated Return Provisions

### A. Filing updated return in loss scenario

- Currently, taxpayers are permitted to file an updated return within 48 months from the end of the relevant tax year. However, an updated return cannot be filed if it results in a loss return.

- This restriction prevents taxpayers from revising their returns solely to reduce the amount of loss reported earlier.
- It is now proposed to allow taxpayers to file an updated return even when such a return reduces the loss originally reported in the return of income.

### B. Filing updated return in reassessment scenario

- At present taxpayers cannot file an updated return once reassessment proceedings have been initiated. To reduce litigation and promote voluntary compliance, it is proposed to allow taxpayers to file an updated return even after a reassessment notice has been issued.
- The updated return must be furnished within the time specified in the notice, post which no other return can be filed in response to that notice
- Where an updated return is filed in such cases, the additional income-tax payable will be increased further by 10% of the tax and interest due. Further, additional income tax paid in said updated return will not attract penalty

These amendments will take effect from 1 March 2026



## Rationalisation of Penalty into Fee

Under the existing provisions, failure to furnish transfer pricing audit report within prescribed time attracts penalty.

It is now proposed to replace the penalty regime with a fee-based mechanism as follows

Particulars	Existing provisions	Proposed provisions
Failure to furnish transfer pricing audit report	Penalty of INR 100,000	<ul style="list-style-type: none"> <li>Fee of INR 50,000 for delay of upto one month for which such failure continues</li> <li>Fee of INR 100,000 thereafter</li> </ul>

The above change will take effect from tax year 2026-27



## Expansion of scope of immunity from penalty and prosecution

Under the existing income tax provisions, a taxpayer can obtain immunity from penalty and prosecution if the following conditions are met:

1. Tax and interest as per the assessment order are paid within the prescribed time; and
2. No appeal is filed against the assessment order.

However, this immunity is restricted only to cases of "under reporting of income" and does not apply where the under reporting is due to misreporting of income.

It is now proposed to extend the benefit of immunity even to cases where under reporting arises due to misreporting of income, subject to payment of an additional income tax equal to 100 percent of the tax payable on such income, in lieu of penalty;

Earlier, misreporting cases attracted mandatory penalty (generally 200% of tax) with no immunity option. The proposal introduces a settlement oriented approach, encouraging taxpayers to accept the assessment, pay a defined additional tax, and avoid prolonged litigation and prosecution exposure

This change will take effect from tax year 2025-26.

# Key Policy Announcements

In addition to tax proposals, the Finance Minister, during her Budget Speech, spelt out few policy announcements:

## Modernising Foreign Investment Rules

A comprehensive review of Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (covering investments in securities such as equity, REIT/Invits, etc.) is proposed to make the foreign investment framework simpler, contemporary, and align with evolving economic priorities

## Deepening the Corporate Bond Market

Measures proposed to boost market activity, including introduction of:

- Market-making framework,
- Derivatives on corporate bond indices, and
- Total return swaps on corporate bonds

## Incentivizing Municipal Bonds

Municipal corporations issuing a single bond issuance of ₹1,000 crore or more will receive an incentive of ₹100 crore from the government



# Tax Rate Card

## SWF and PF - Period of Holding for a Capital Asset

Type of Asset	Holding period for Long Term Capital Asset (LTCA)	Holding period for Short Term Capital Asset (STCA)
<ul style="list-style-type: none"> <li>➤ <b>Listed Securities :</b> <ul style="list-style-type: none"> <li>- <b>Shares (Equity/ Preference)</b></li> <li>- <b>Bonds (including government bonds) and Debentures</b></li> <li>- <b>Derivatives</b></li> <li>- <b>Units of Mutual Funds other than Equity oriented and Specified Mutual Fund (SMF)<sup>1</sup></b></li> </ul> </li> <li>➤ <b>Units of REITs/ InvITs</b></li> <li>➤ <b>Units of Equity oriented Mutual Fund</b></li> <li>➤ <b>Zero Coupon Bonds</b></li> </ul>	More than 12 months	12 months or less
<ul style="list-style-type: none"> <li>➤ <b>Unlisted Securities:</b> <ul style="list-style-type: none"> <li>- <b>Shares (Equity/ Preference)</b></li> <li>- <b>Units of REITs/ InvITs</b></li> <li>- <b>Units of AIF</b></li> <li>- <b>Mutual fund units other than Equity oriented and SMF</b></li> </ul> </li> </ul>	More than 24 months	24 months or less
<ul style="list-style-type: none"> <li>➤ <b>Unlisted bonds and debentures</b></li> <li>➤ <b>Units of SMF</b></li> <li>➤ <b>Units of market linked debentures</b></li> </ul>	Deemed to be STCA irrespective of the period of holding <sup>2</sup>	

1. Specified mutual means a Mutual Fund, by whatever name called, which invests more than 65% of its total proceeds in debt and money market instruments or a fund which invests 65% or more of its total proceeds in units of such Mutual Fund, subject to the following:—
  - (i) the percentage of investment in debt and money market instruments or in units of a fund shall be computed with reference to the annual average of the daily closing figures;
  - (ii) "debt and money market instruments" shall include any securities, by whatever name called, classified or regulated as debt and money market instruments by the Securities and Exchange Board of India.
2. (a) a unit of Specified Mutual Fund which is acquired on or after 1 April 2023 or a market linked debenture; or (b) an unlisted bond or an unlisted debenture which is transferred or redeemed or matures on or after the 23 July 2024 shall be deemed to be short-term capital asset.

# Tax Rate Card

## SWF and PF [Foreign Portfolio Investors(FPI)]

Tax Year: 1 April 2026 to 31 March 2027		
Type of asset	Capital Gains Tax rates	
	Long Term Capital Gains (LTCG)	Short Term Capital Gains (STCG)
Equity shares <sup>4</sup> / Units of REITs/InvITs/ Units of Equity oriented Mutual Funds (Subject to STT)	12.5% <sup>5</sup>	20%
Unlisted bonds and debentures/ Units of SMF/ Units of market linked debentures	NA (as deemed to be STCA)	30%
Units of AIF/ Listed Bonds (including government bonds) and Debentures	12.5%	30%
Derivatives	12.5%	30%

  

Nature of Income	Tax rate
Dividend (taxed on gross basis and not net income basis)	20%
Interest (taxed on gross basis and not net income basis)	20%

1. "Tax Year" means the twelve months period of the financial year commencing on the 1st April.
2. The above rates are to be increased by applicable surcharge and cess.
3. Eligible taxpayers can also claim tax rate prescribed in the tax treaty whenever beneficial, subject to conditions.
4. Consideration received on buy-back of shares to be taxed as capital gains. Further, an additional tax levy has been introduced for promoter shareholders\*. Considering the FPIs should not be considered as promoters as per definition provided under Securities Exchange Board of India (Buy-back of securities) Regulations, 2018, said additional tax rates are not mentioned in the above table.
5. Long-term capital gains (LTCG) is taxable as per Section 210 read with section 198 of the Act exceeding INR 0.125 million. The LTCG will be computed without giving effect to indexation benefits.

# Tax Rate Card

## SWF and PF- FPI - Surcharge and cess

Tax Year: 1 April 2026 to 31 March 2027

### Non-Corporate

Total income	Capital Gains and dividend income	Income other than capital gains and dividend income
Does not exceed INR 5 million	NIL	NIL
Exceeds INR 5 million but does not exceed INR 10 million	10 per cent on income-tax	10 per cent on income-tax
Exceeds INR 10 million but does not exceed INR 20 million	15 per cent on income-tax	15 per cent on income-tax
Exceeds INR 20 million but does not exceed INR 50 million	15 per cent on income-tax	25 per cent on income-tax
Exceeds INR 50 million	15 per cent on income-tax	37 per cent on income-tax

### Corporate

Total income	All income
Does not exceed INR 10 million	NIL
Exceeds INR 10 million but does not exceed INR 100 million	2 per cent on income-tax
Exceeds INR 100 million	5 per cent on income-tax

### Health and Education Cess

Particulars	Rate
Non-Corporate and Corporate	4 per cent on income-tax and surcharge

# Tax Rate Card

## SWF and PF (Other than FPI)

Tax Year: 1 April 2026 to 31 March 2027		
Type of asset	Capital Gains Tax rates	
	LTCG	STCG
Equity shares <sup>4</sup> / Units of REITs/InvITs (Subject to STT)	12.5% <sup>5</sup>	20%
Unlisted bonds and debentures/ Units of market linked debentures	NA (as deemed to be STCA)	35% - Corporate Taxpayer 30%- Non-corporate Taxpayer
Preference Shares/ Unlisted equity shares <sup>4</sup> / Units of AIF/ Listed Bonds (including government bonds) and Debentures	12.5%	

  

Nature of Income	Tax rate	
	Corporate Taxpayer	Non- Corporate Taxpayer
Dividend	20%	20%
Interest received from Government or an Indian concern on borrowing or debt incurred by them in foreign currency (Gross basis) <sup>6</sup>	20%	20%
Interest income not covered above (Net basis)	35%	30%

- "Tax Year" means the twelve months period of the financial year commencing on the 1st April.
- The above rates are to be increased by applicable surcharge and cess.
- Eligible taxpayers can also claim tax rate prescribed in the tax treaty whenever beneficial, subject to conditions.
- Consideration received on buy-back of shares to be taxed as capital gains. Further, promoter shareholders are subject to higher tax rates on capital gains as below:

Nature	Non – Promoter	Promoter* (domestic company)	Promoter* (Other than domestic company)
STCG on listed shares	20%**	22%**	30%**
STCG on unlisted shares	35% - Corporate Taxpayer / 30%- Non-corporate Taxpayer		
LTCG on listed / unlisted shares	12.5%**	22%**	30%**

\*Promoter is defined to mean (i) in case of listed entities – as defined SEBI (Buy-back of securities) Regulations, 2018 (ii) in case of unlisted entities – promoter as defined under the Companies Act 2013 or a person who holds directly or indirectly, more than 10% shareholding in the company.

\*\*The above rates are to be increased by applicable surcharge and cess.

- Long-term capital gains (LTCG) is taxable as per Section 210 read with section 198 of the Act exceeding INR 0.125 million. The LTCG will be computed without giving effect to indexation benefits.
- Concessional tax rates apply in certain cases: 5% for specified foreign currency loans and bonds (including rupee denominated bonds) issued before 1 July 2023, 4% for long-term or rupee denominated bonds listed exclusively on IFSC exchanges between 1 April 2020 and 30 June 2023, and 9% for such bonds issued on or after 1 July 2023. These reduced rates are subject to conditions notified by the Government.

# Tax Rate Card

## SWF and PF (Other than FPI)- Surcharge and cess

Tax Year: 1 April 2026 to 31 March 2027

### Non-Corporate

Total income	STCG on equity shares/ Units of REITs/InvITs (Subject to STT) and any LTCG or Dividend income	Income other than STCG on equity shares/ Units of REITs/InvITs (Subject to STT) and any LTCG or Dividend income
Does not exceed INR 5 million	NIL	NIL
Exceeds INR 5 million but does not exceed INR 10 million	10 per cent on income-tax	10 per cent on income-tax
Exceeds INR 10 million but does not exceed INR 20 million	15 per cent on income-tax	15 per cent on income-tax
Exceeds INR 20 million but does not exceed INR 50 million	15 per cent on income-tax	25 per cent on income-tax
Exceeds INR 50 million	15 per cent on income-tax	37 per cent on income-tax

### Corporate

Total income	All income
Does not exceed INR 10 million	NIL
Exceeds INR 10 million but does not exceed INR 100 million	2 per cent on income-tax
Exceeds INR 100 million	5 per cent on income-tax

### Health and Education Cess

Particulars	Rate
Non-Corporate and Corporate	4 per cent on income-tax and surcharge

# Securities Transaction Tax - Rate Card

**Tax Year: 1 April 2026 to 31 March 2027**

STT is levied on the value of taxable securities transactions as under:

Sr. No.	Transaction	Rates in Percentage	Value	Paid by
1	Purchase/Sale of equity shares or units of a business trust (delivery based)	0.1	Settlement Price	Purchaser / Seller
2	Sale of units of equity oriented mutual fund (delivery based)	0.001	Settlement Price	Seller
3	Sale of equity shares, units of equity oriented mutual fund or units of a business trust (non-delivery based)	0.025	Settlement Price	Seller
4	Sale of unit of an equity oriented fund to the mutual fund	0.001	Settlement Price	Seller
5	Sale of Futures in securities	0.05	Price at which "Future" is traded	Seller
6	Sale of Option in securities	0.15	Option Premium	Seller
7	Sale of Option in securities, where option is exercised	0.15	Difference of strike price and settlement price	Purchaser
8	Sale of unlisted equity shares under an offer for sale to the public included in an initial public offer and where such shares are subsequently listed on a recognised stock exchange	0.20	Settlement Price	Seller
9	Sale of unlisted units of a business trust under an offer for sale to the public included in an initial public offer and where such units are subsequently listed on a recognised stock exchange	0.20	Settlement Price	Seller

# KPMG in India contact:

## Sunil Badala

National Head of Tax

Head of BFSI Tax

E: [sunilbadala@kpmg.com](mailto:sunilbadala@kpmg.com)



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KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000.

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