Tax Flash News

5 August 2026

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Bill introduced to amend the Income-tax Act, 2025

Executive summary

In response to evolving global economic conditions and supply-chain disruptions, the Government of India has introduced the Taxation and Other Laws (Amendment) Bill, 2026 (‘the Amendment Bill’) in the Lok Sabha to amend, *inter alia*, the Income-tax Act, 2025 (‘the 2025 Act’).

The proposed amendments relate to exemption to foreign companies in connection with the contract manufacturing of electronics goods by an Indian company and procurement of data centre services, exemption to unit holders of business trusts, and provisions relating to offshore investment funds.

The Amendment Bill also seeks to incorporate into the 2025 Act the provisions of the June 2026 Ordinance which granted exemption to FIIs and BIS[1] in respect of interest income and capital gains arising from Government securities.

Unless specified otherwise, these amendments are effective from 1 April 2026.

This Flash News captures the key proposals introduced in the Amendment Bill.

[1] Foreign Institutional Investors and Bank for International Settlements

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Key amendments

Safe Harbour Regime: Managing Offshore Fund from India

To promote fund management activities from India, a dedicated Safe Harbour regime was introduced in 2015 to safeguard offshore funds from adverse tax consequences arising solely from India-based fund management. The regime has since then been refined through industry feedback to improve its effectiveness and competitiveness.

The Amendment Bill proposes significant changes to this regime to further strengthen India's position as a preferred fund management hub by providing greater tax certainty.

Relaxation of conditions for Eligible Investment Funds

S.No.	Existing condition	Proposed amendment
1.	The Fund is not a person resident in India	No change
2.	The Fund is a resident of a country or specified territory with which an agreement under section 159(1) / (2) of the 2025 Act has been entered into or established or incorporated or registered in a country or a specified territory as notified in this behalf	No change
3.	The aggregate participation or investment in the fund, directly by persons resident in India, does not exceed 5% of the corpus of the fund as on 1 April and 1 October of the tax year, subject to certain exceptions.	No change except language simplification
4.	The Fund and its activities are subject to applicable investor protection regulations in the country or specified territory where such fund is established or incorporated or is a resident.	Condition deleted
5.	The Fund has a minimum of 25 members who are, directly or indirectly, not connected persons.	Condition deleted
6.	Any member of the Fund along with connected persons shall not have any participation interest, directly or indirectly, in the Fund exceeding 10%	Condition deleted
7.	The aggregate participation interest, directly or indirectly, of ten or less members along with their	Condition deleted

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S.No.	Existing condition	Proposed amendment
	connected persons in the Fund, shall be less than 50%.	
8.	The Fund shall not invest more than 25% of its corpus in any entity	Condition deleted
9.	The Fund shall not make any investment in its associate entity.	Condition deleted
10.	The Fund's monthly average corpus must be at least INR 1,000 million. For new Funds, this threshold must be achieved within 12 months from the last day of the month of its establishment or incorporation. This condition does not apply if the fund has been wound up during the tax year.	Condition deleted
11.	The Fund shall not carry on or control and manage, directly or indirectly, any business in India	No change
12.	The Fund and any person acting on its behalf is not engaged in any activity which constitutes a business connection in India other than the activities undertaken by the eligible fund manager on its behalf	The condition is proposed to apply only to persons acting on behalf of the fund and not to the Fund itself

S.No.	Existing condition	Proposed amendment
13.	The remuneration paid by the Fund to an eligible fund manager in respect of fund management activity undertaken by him on its behalf is not less than the amount calculated in prescribed manner.	Condition deleted

No change in conditions for Eligible Fund Manager

The Eligible Fund Manager in India is also required to satisfy the prescribed conditions. No change in those conditions is proposed in the Amendment Bill.

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Contract manufacturing of electronic goods

The 2025 Act grants exemption up to tax year 2030-31 in respect of income arising to a foreign company from providing capital goods, equipment or tooling to its Indian contract manufacturer located in a custom bonded area for use in the manufacturing of electronic goods on the behalf of the foreign company.

The Amendment Bill clarifies that the exemption is available in relation to "specified electronic goods" which have been defined to mean mobile phones, laptops, all-in-one personal computers, tablets, servers etc. and their sub-assemblies and related accessories and hearables and wearables. Further, the exemption is proposed to be extended till tax year 2040-41.

The Amendment Bill has also introduced an exemption in respect of income arising to a foreign company from the storage of components in customs bonded warehouses for providing such components to contract manufacturers to be used in manufacturing of specified electronic goods (as defined above).[2] The exemption will apply to income from sale of components by the foreign company and is available up to the tax year ending on 31 March 2041. In this regard, the "contract manufacturer" has been defined to mean an Indian company which produces specified electronic goods on behalf of any foreign company in a custom bonded area.

[2] This amendment is effective from 1 October 2026

Procuring of data centre services

The 2025 Act grants exemption till 31 March 2047 to a foreign company on income accruing/ arising in India relating to procuring of data centre services from a specified data centre. In this regard, the foreign company is required to be notified by the Central Government. The Amendment Bill seeks to omit the requirement of such notification.

Further, the existing definition of "specified data centre" requires it to be owned and operated by an Indian company and be set up under an approved scheme and notified by the Central Government. The definition is proposed to be amended to mean a data centre which:

(i) is operated by an Indian company, whether by way of owning or leasing; and

(ii) satisfies such other conditions as may be prescribed.

Interest on Government securities

On 5 June 2026, the Government promulgated an ordinance[3] granting tax exemption to Foreign Institutional Investors ('FIIs') and the Bank for International Settlements ('BIS') in respect of interest income and capital gains arising from Government securities.

The Amendment Bill has incorporated these exemptions in the 2025 Act.

[3] The Income-tax (Amendment) Ordinance, 2026 (which is now repealed)

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Unit holders of business trust

The 2025 Act grants exemption to distributed income received by unit holders of a business trust except to the extent the distributed income represented dividend received from a special purpose vehicle ('SPV') that had opted for the concessional tax regime.[4]

The Amendment Bill proposes to remove this condition, thereby extending the scope of exemption available to unit holders.

Other key proposals

- Higher surcharge at the rate of 25 per cent on SPVs (an Indian company in which business trust holds controlling interest),[5] opting for the concessional corporate tax regime.[6]
- Tax exemption for foreign companies engaged in the business of diamond mining or related activities.[7]

Our comments

The Amendment Bill seeks to enhance tax certainty and improve the ease of doing business for foreign investors. The proposed relaxation of conditions relating to data centre services, including removal of Government notification requirements and recognition of leased data centre models, address practical industry concerns.

The rationalisation of conditions applicable to eligible investment funds is expected to further strengthen India's position as a preferred fund management hub by providing greater tax certainty and making the regime more attractive for offshore funds seeking to be managed from India.

Further, the proposal to extend the exemption for unit holders of business trusts where the underlying SPV opts for the concessional tax regime addresses concerns arising from the recent MAT reforms, while the corresponding surcharge increase on such SPVs seeks to balance the revenue impact.

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[4] Under section 200 of the 2025 Act (Tax on income of certain domestic companies)

[5] Note 2 to Schedule V provides that "special purpose vehicle" means an Indian company in which the business trust holds controlling interest and any specific percentage of shareholding or interest, as may be required by the law under which such trust is granted registration.

[6] Section 200 (Tax on income of certain domestic companies) or section 201 (Tax on income of new manufacturing domestic companies)

[7] This amendment is effective from 1 October 2026

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