THE POWER OF BEING UNDERSTOOD

RSM India Newsflash – Taxation and Other Laws (Amendment) Act, 2026: Key Amendments

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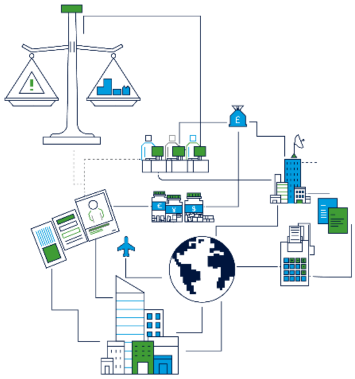
1. Background



The Income-tax Act (hereinafter referred to as 'ITA'), 2025 came into force with effect from 1 April 2026, replacing the ITA 1961. The Finance Act, 2026 subsequently introduced various tax measures applicable for the Tax Year ('TY') 2026–27.

Further, in response to current geopolitical uncertainties and disruptions in global trade and supply chains, and considering representations received from various stakeholders, the Government considered it necessary to introduce immediate tax measures to facilitate ease of doing business and provide greater tax certainty. As Parliament was not in session, the Income-tax (Amendment) Ordinance, 2026, was promulgated on 5 June 2026.

Subsequently, the Taxation and Other Laws (Amendment) Bill, 2026 was introduced to replace the Income-tax (Amendment) Ordinance, 2026 and to give legislative effect to the amendments introduced through the Ordinance, along with certain additional tax and regulatory relief measures considered necessary following further policy review. **The Bill thereafter received the assent of the President on 17 August 2026 and was enacted as the Taxation and Other Laws (Amendment) Act, 2026 (hereinafter referred to as the 'TOLA Act, 2026'), thereby providing statutory effect to the amendments.** The Central Board of Direct Taxes (hereinafter referred to as the 'CBDT') has also issued Frequently Asked Questions[1] (hereinafter referred to as the 'FAQs') providing clarifications in relation to the amendments. Unless otherwise specified, the amendments are effective from 1 April 2026.

The key amendments under the TOLA Act, 2026, covering areas such as international taxation, foreign investment, electronic manufacturing, data centres, rough diamond trading, business trusts, eligible investment funds and electronic payment systems, are set out in this Newsflash.

2. Statutory Coverage of the Taxation and Other Laws (Amendment) Act, 2026

The TOLA Act, 2026 amends the following three principal legislations:

2.1 Income-tax Act, 2025

The TOLA Act, 2026 introduces several amendments to the ITA 2025, including:

- substitution of Schedule I governing eligible investment funds
- amendments to Schedule IV relating to tax exemptions available to eligible non-residents and foreign companies
- insertion of several new exemptions for specified foreign investors and businesses

[1] FAQs – The Taxation and Other Laws (Amendment) Act, 2026

- amendment to Schedule V concerning the taxation of Business Trusts and their unit holders

2.2 Finance Act, 2026

The TOLA Act, 2026 amends the surcharge provisions applicable to Special Purpose Vehicles ('SPV') of Business Trusts to align them with the revised dividend exemption framework under the ITA 2025.

2.3 Payment and Settlement Systems Act, 2007 (hereinafter referred to as PSSA 2007)

The TOLA Act, 2026 amends section 10A relating to electronic payment modes by replacing the existing reference to section 269SU of the ITA 1961 with a more flexible framework empowering the Central Government (hereinafter referred to as the 'CG') to notify electronic payment modes.

3. Comparative Analysis of Amendments to the ITA 2025 under the TOLA Act, 2026

3.1 Amendments to Conditions Governing Fund Management Activities in India under Schedule I read with Section 9(12) of the ITA 2025

Particulars	Existing Provisions under the ITA 2025	Amendments under the TOLA Act, 2026
Rationalisation of eligibility conditions for eligible investment funds	Section 9(12), read with Schedule I of the ITA 2025, provides that fund management activities undertaken in India through an eligible fund manager shall not constitute a business connection of an eligible offshore investment fund. **Schedule I of the ITA 2025 prescribes –** • **13 conditions** for an eligible investment fund and • **4 conditions** for an eligible fund manager. The fund level conditions include minimum corpus, investment concentration limits, investor diversification requirements, restrictions on investments in associate entities and minimum remuneration payable to the fund manager.	To promote fund management activity and provide tax certainty, the TOLA Act, 2026 rationalizes the fund-level eligibility framework by reducing the 13 existing conditions to 5 principal conditions in Schedule I of the ITA 2025. The Fund must: (i) remain non-resident, (ii) be resident or established in a treaty or notified jurisdiction, (iii) restrict direct investment by Indian residents to 5% of its corpus, subject to specified relaxations, (iv) not carry on or control and manage any business in India, directly or indirectly, (v) ensure that no person acting on its behalf creates a business connection in India, except through the eligible fund manager.

Particulars	Existing Provisions under the ITA 2025	Amendments under the TOLA Act, 2026
		The 4 conditions applicable to the eligible fund manager are substantially retained.
Removal of specific relaxation for sovereign and other specified funds	Schedule I of the ITA 2025 provides a specific relaxation from certain investor diversification conditions for investment funds set up by a foreign Government or Central Bank, sovereign funds and other notified funds.	The specific relaxation is also removed, since the underlying investor diversification conditions themselves are omitted from the substituted Schedule I.
Consequential omission of definitions of 'associate' and 'entity'	Schedule I separately defines 'associate' and 'entity', which are relevant for restrictions relating to investments in associate entities and concentration of investments in a single entity.	The definitions of 'associate' and 'entity' are removed, since the underlying investment diversification conditions themselves are omitted from the substituted Schedule I.

3.2 Amendments to Schedule IV read with Section 11 of the ITA 2025

Particulars	Existing Provisions under the ITA 2025	Amendments under the TOLA Act, 2026
Tax Exemption for Foreign Companies: Extension of Exemption Period and Specification of Eligible Electronic Goods	Schedule IV, Serial No. 13A exempts income of a foreign company arising from providing capital goods, equipment or tooling to a resident contract manufacturer for electronic manufacturing, subject to satisfaction of specified conditions. The exemption is available up to TY 2030–31.	The exemption period is amended to be extended up to **TY 2040-41**. Further, the conditions relating to production are amended to refer contract manufacturing specifically to **specified electronic goods**. A new Note 2A inserted in Schedule IV of the ITA 2025 defines specified electronic goods to include – • mobile phones, • laptops, all-in-one personal computers and tablets, • servers and ultra small form factor, • related sub-assemblies & hearables, wearables and accessories for the above specified goods.

Particulars	Existing Provisions under the ITA 2025	Amendments under the TOLA Act, 2026
Tax Exemption to Foreign Companies storing components for sale to a contract manufacturer involved in manufacturing of specified electronic goods	No exemption	With effect from **1 October 2026**, the TOLA Act, 2026 has introduced **Serial No. 13G in Schedule IV** exempting income of a foreign company arising on account of sale of components stored in a custom bonded warehouse and supplied to a resident contract manufacturer for manufacturing specified electronic goods. Contract manufacturer is defined as an Indian company which produces specified electronic goods on behalf of any foreign company in a custom bonded area. The exemption is available up to **TY 2040-41,** subject to furnishing information in the prescribed form and manner.
Relaxation of Exemption Conditions for Data Centre Services	Schedule IV, Serial No. 13C exempts income of a foreign company arising from procuring services from a specified data centre in India. The foreign company and specified data centre are presently required to be notified by the CG. Further, the data centre must be owned and operated by an Indian company and set up under an approved scheme.	The TOLA Act, 2026 removes the notification requirement by the CG applicable to the foreign company and the specified data centre. Further, it also provides that a specified data centre can be operated by an Indian company either through **ownership or lease and subject to the prescribed conditions.**
Exemption for Foreign Institutional Investors (FIIs) and Bank for International Settlements (BIS) on income from Government Securities	No exemption	The TOLA Act, 2026 has introduced **Serial No. 13D and 13E in Schedule IV** exempting interest on Government securities and capital gains arising from their sale, exchange or transfer in the hands of a FII and BIS respectively, subject to furnishing information in the prescribed form and manner.

Particulars	Existing Provisions under the ITA 2025	Amendments under the TOLA Act, 2026
Exemption for Foreign Companies Selling Rough Diamonds	No exemption	With effect from **1 October 2026**, the TOLA Act, 2026 introduced **Serial No. 13F in Schedule IV** exempting income from the sale of rough diamonds by a foreign mining company or its sightholder, broker, aggregator or tender and auction entity, where the sale takes place in a notified special zone and the prescribed information is maintained and furnished. The exemption is available up to **TY 2040-41**. This exemption is for rough diamonds which fall within the specified customs tariff headings and are accompanied by a Kimberley Process Certificate.

4. Amendments to Taxation of SPVs of Business Trusts and Unit Holders under the TOLA Act, 2026

Particulars	Existing Provisions under the ITA 2025 / Finance Act, 2026	Amendments under the TOLA Act, 2026
Dividend Exemption for Unit Holders of Business Trusts	As per Schedule V, Serial No. 5 of the ITA 2025, dividends distributed by a Business Trust are not exempt in the hands of the unitholder where the underlying SPV has opted for the concessional (new) tax regime under section 200 of the ITA 2025.	The TOLA Act, 2026 **omits the relevant clause of Schedule V of the ITA 2025** that provided for taxation of dividend income in the hands of unitholders. Consequently, dividends received by a unit holder from a Business Trust are exempt, including where the underlying SPV has opted for the concessional (new) tax regime under section 200 of the ITA 2025.
Revision of surcharge applicable to SPVs of Business Trusts	Under the Finance Act, 2026, a domestic company whose income is chargeable under section 200 or 201 of the ITA 2025 is liable to surcharge at the rate of 10%. No separate surcharge rate is prescribed for a domestic company qualifying as an SPV of a Business Trust.	The TOLA Act, 2026 has increased the **surcharge rate from 10% to 25% in case of qualifying SPVs of Business Trusts**. Surcharge rate of 10% has been retained for other domestic companies. A corresponding amendment has also been made in the advance tax provisions to ensure consistent application of the revised surcharge

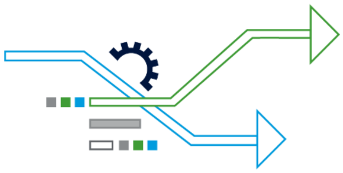
Particulars	Existing Provisions under the ITA 2025 / Finance Act, 2026	Amendments under the TOLA Act, 2026
		at the stage of advance tax payment.

5. Delinking of Electronic Payment Mode provisions in the PSSA 2007 from the ITA

Section 10A of the PSSA 2007 presently refers to electronic payment modes prescribed under section 269SU of the ITA 1961.

The TOLA Act, 2026 amends section 10A of the PSSA 2007 by introducing a provision empowering the CG to notify one or more electronic modes of payment. The said amendment delinks the PSSA 2007 from the income-tax legislation and thereby, provides greater flexibility to the CG for notifying electronic payment modes independently.

6. Way forward



The TOLA Act, 2026 has implications across several sectors of the economy, notably cross-border investments, foreign companies, digital infrastructure, contract manufacturing, Government securities and Business Trusts.

The effective implementation of the TOLA Act, 2026 will depend on the issuance of the relevant Rules, forms, notifications and administrative guidance prescribing the conditions and compliance requirements for availing the amended exemptions in certain cases.

Taxpayers and stakeholders should consider undertaking a detailed review of their existing and amended structures and transactions to assess eligibility under the amended provisions.

An early assessment of the amended provisions and corresponding compliance requirements should enable affected taxpayers to appropriately align their structures and processes and mitigate potential tax and compliance risks.

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For further information please contact:

RSM Astute Consulting Pvt. Ltd.

9th Floor, Maker Chambers VI, Nariman Point, Mumbai – 400021

3rd Floor, Technopolis Knowledge Park, Mahakali Caves, Chakala, Andheri East, Mumbai - 400093

T: (91-22) 6108 5555/ 6121 4444
F: (91-22) 6108 5556/ 2287 5771

E: emails@rsmindia.in **W:** www.rsmindia.in

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru, Navi Mumbai, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Jaipur and Vijayanagar.

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