Bill Summary

The Taxation and Other Laws (Amendment) Bill, 2026

- The Taxation and Other Laws (Amendment) Bill, 2026 was introduced in Lok Sabha on August 4, 2026. The Bill seeks to repeal and replace the Income-tax (Amendment) Ordinance, 2026 issued on June 5, 2026. The Ordinance amended the Income-tax Act, 2025 to provide exemptions to certain foreign investors in government securities. The Bill further amends the 2025 Act to provide exemptions to certain other entities. It also amends the: (i) Finance Act, 2026 and (ii) Payment and Settlement Systems Act, 2007.
- **Exemption to FIIs and BIS on income from government securities:** The Bill exempts foreign institutional investors (FIIs) and the Bank for International Settlements (BIS) from paying income tax on: (i) interest earned on investments in government securities, and (ii) capital gains arising from sale, exchange or transfer of such securities. The exemption will apply to income arising on or after April 1, 2026. These changes were introduced by the 2026 Ordinance. Previously, under the Income-tax Act, interest income was taxed at 20%, short-term capital gains at 30%, and long-term capital gains at 12.5%.
- **Foreign companies engaged in businesses of diamonds and electronics manufacturing:** The Bill further amends the Income-tax Act to give tax exemptions to certain foreign companies. Income from sale of rough diamonds in a notified special zone will be exempt. This will apply to foreign companies: (i) engaged in diamond mining or sightholders of such companies, and (ii) broker, aggregator, or a tender and auction entity connected with sale of rough diamonds. Similarly, income on account of storage of components in a warehouse in a custom bonded area will be exempt. This will apply to foreign companies that supply them to a contract manufacturer of specified electronic goods. These include phones, laptops, servers, and sub-assemblies of finished goods. Both these exemptions will apply to income arising on or after October 1, 2026 and be available until March 31, 2041.

Further, the Income-tax Act exempts income of a foreign company arising from providing capital goods, equipment, or tooling. This applies to such supply to a contract manufacturer of electronic goods. This exemption is available until 2030-31. The Bill extends it until 2040-41.

- **Investment funds registered outside India but managed from India:** The Income-tax Act specifies conditions for tax treatment of eligible investment funds registered outside India but managed from India. If these are met, the fund is not treated as having a business connection in India, and does not become taxable in India for that reason. The Bill removes several conditions including: (i) a minimum of 25 members, (ii) maximum 10% participation interest of a single investor, (iii) minimum monthly average corpus requirement of Rs 100 crore, and (iv) bar on investing more than 25% of the corpus in a single entity.
- **Special purpose vehicles of business trusts:** The Finance Act, 2026 levies a surcharge of 10% on income-tax payable by every domestic company opting for concessional tax rates. The Bill raises surcharge rate to 25% for a special purpose vehicle of a business trust. Business trusts (e.g. REITs and InvITs) pool money from investors to buy and manage assets. The Bill also exempts unit holders of a business trust from tax on the income representing dividends from such a special purpose vehicle.
- **Data centres:** The Income-tax Act exempts income of specified foreign companies arising by way of procuring services from specified data centres. The Bill removes the conditions that: (i) the foreign company be notified by the central government, and (ii) the data centre be set up under an approved scheme and be notified in this regard. Under the Act, exemption is available for services procured from a data centre owned and operated by an Indian company. The Bill extends the exemption to data centres leased and operated by an Indian company.

Davis Joseph
davis@prsindia.org

August 5, 2026