NEWS ALERT

Date: 4 August 2026

Key proposals of the Taxation and Other Laws (Amendment) Bill, 2026

The Indian Finance Minister introduced the Taxation and Other Laws (Amendment Bill), 2026 ('TOLA, 2026') in the Lower House of Parliament on 4 August 2026. This Bill is aimed at attracting foreign investment by extending tax holidays and exemptions, streamlining compliances and eliminating requirements for approvals for specified taxpayers.

The team at JMP Advisors is pleased to summarise below the significant tax proposals announced in the TOLA, 2026. These proposals are subject to enactment of the TOLA, 2026 and are effective from 1 April 2026 unless otherwise stated.

- **Relaxation of conditions to avail exemption in connection with specified data centre services *[Schedule IV]***

  - An exemption was provided under the Finance Act, 2026 for the income of foreign companies by way of procuring data centre services, subject to specified conditions.

  - In this connection, it is proposed to relax some of the conditions which are a prerequisite to avail of the exemption, as under:

    a. The foreign company does not need specific notification by the Central Government.

    b. The specified data centre may not necessarily be set up under an approved scheme or be separately notified by the Central Government. Instead, the data centre would be required to satisfy such conditions as may be prescribed.

    c. The data centre may not necessarily be owned by an Indian company. The data centre shall be required to be operated by an Indian company, which may either be an owned facility or a leased arrangement.

  - The proposed amendment will be effective from 1 October 2026.

- **Exemption on income from sale of components used in manufacturing of electronic goods *[Schedule IV]***

  - It is proposed to exempt income arising from the sale of components by a foreign company that stores components in a warehouse located in a customs bonded area in India.

  - It is proposed that the exemption shall apply where the components are supplied to a contract manufacturer for manufacturing specified electronic goods on behalf of the foreign company.

  - It is further proposed that the exemption will apply only where the Indian contract manufacturer produces specified electronic goods on behalf of any foreign company and shall be subject to furnishing of information in such form and manner as may be prescribed.

  - The exemption will be available for 15 years i.e. up to tax year ending on 31 March 2041.

  - The proposed amendment shall be effective from 1 October 2026

- **Exemption on certain income from Government Securities *[Schedule IV]***

  - It is proposed to exempt the income earned by Foreign Institutional Investors ('FIIs') and the Bank for International Settlements ('BIS') by way of interest on Government Securities and Capital gains on the sale, exchange or transfer of Government Securities.

  - It is further proposed to provide that such exemption shall be subject to furnishing of information in such form and manner as may be prescribed.

  - In this context, Government Securities refer to debt instruments issued by the Government of India or State Governments, including treasury bills, Government bonds and other sovereign securities for the purpose of public borrowings.

- **Extension of period of exemption for a foreign company and insertion of definition of 'Specified Electronic Goods' *[Schedule IV]***

  - It is proposed to extend the exemption available to a foreign company on income arising from the provision of capital goods, equipment or tooling to a contract manufacturer by another ten years, i.e., from Tax Year 2030-31 to Tax Year 2040-41.

  - Further, it is proposed to insert a definition of 'Specified Electronic Goods' to mean mobile phones, laptops, all-in-one personal computers and tablets, servers and USFF or specified sub-assemblies to finished goods, hearables and wearables and accessories, to provide greater clarity and certainty regarding scope and application of the exemption.

- **Exemption on income from sale of rough diamonds *[Schedule IV]***

  - It is proposed to exempt income from sale of rough diamonds earned by a foreign company engaged in diamond mining or a sightholder of the mine, broker, aggregator or a tender and auction entity.

  - It is further proposed that the exemption will apply only where the sale is carried out in a notified special zone and shall be subject to furnishing of information in such form and manner as may be prescribed.

  - The exemption will be available for 15 years i.e. up to tax year ending on 31 March 2041.

  - The proposed amendment shall be effective from 1 October 2026.

- **Relaxations for Eligible Investment Fund to not constitute Business Connection in India *[Schedule I]***

  - The fund management activity carried out by an eligible investment fund through an eligible fund manager acting on behalf of such fund would not constitute a business connection in India subject to conditions prescribed.

  - In order to promote fund management activities in India, it is proposed to relax the conditions for qualifying as an eligible investment fund by reducing the existing 13 conditions to 5 conditions, as follows:
    a. Fund is not resident in India

    b. Fund is resident in a country or specified territory having a DTAA with India or in a notified jurisdiction.

c. Aggregate investment by Indian residents in the fund does not exceed 5% of the corpus.

d. Fund does not carry on or control and manage, directly or indirectly, any business in India.

e. No person acting on behalf of the fund engages in any activity which constitutes a business connection in India other than the activities undertaken by the eligible fund manager on its behalf.

- Further, it is proposed that an investment fund and its fund manager shall be required to comply with the prescribed conditions irrespective of the fact that the fund manager is located in an International Financial Services Centre ('IFSC') and the eligible fund has commenced operations before 31 March 2030.

➢ **Exemption on dividend income earned by unit holder of a business trust *[Schedule V]***

- It is proposed to exempt the dividend income earned by the unit holders of a business trust from a Special Purpose Vehicle ('SPV') which has opted for the new tax regime.
- It is further proposed that for such SPVs, the rate of surcharge be increased from 10% to 25%.
- Further, such increased surcharge should be considered for payment of advance tax.

Should you wish to discuss any of the above issues in detail or understand the applicability to your specific situation, please feel free to reach out to us at coe@jmpadvisors.in.

The JMP Advisors Team
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