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Navigating India's New Income Tax Code

A Comprehensive Compliance Guide for MNCs & Japanese Subsidiaries

Executive Summary.

India's income tax architecture has undergone its most sweeping structural overhaul in over six decades. The Income-Tax Act, 2025 (IT Act, 2025) replaces the Income-Tax Act, 1961 (IT Act, 1961), effective 1 April 2026, and is accompanied by the Income-Tax Rules, 2026 (IT Rules 2026), notified by the Central Board of Direct Taxes (CBDT) on 20 March 2026.

This article provides a comprehensive, practitioner-oriented guide to every material change relevant to MNCs and their Indian subsidiaries, with particular emphasis on cross-border payment mechanics, Transfer Pricing (TP) compliance, DTAA relief procedures, and the new TDS framework.

Overall Compliance Framework – Key Structural Changes.

The most pervasive change is the complete renumbering of forms, sections, and filing codes. The IT Act, 1961 had accumulated over six decades of amendments resulting in a fragmented numbering system. The IT Act, 2025 and IT Rules 2026 introduce a clean, sequential numbering framework with three objectives: consolidation of duplicative forms, standardisation of reporting formats, and alignment with India's digital tax administration infrastructure.

Two foundational tax concepts have been redefined under the new Income-tax framework to eliminate longstanding interpretational issues.

Under the IT Act, 1961, income was determined with reference to two separate periods, namely, the "Previous Year" (being the year in which income is earned) and the "Assessment Year" (being the year in which such income is assessed and reported).

The IT Act 2025 replaces this dual-period framework with a single, unified concept referred to as the "Tax Year," which corresponds to the financial year itself. Accordingly, all references to "Previous Year" and "Assessment Year" have been subsumed into the concept of "Tax Year," requiring alignment of terminology across tax documentation and reporting frameworks.

Transfer Pricing: Enhanced Compliance Under the New Regime.

Transfer Pricing (TP) compliance has undergone the most substantive transformation under the new regime. The changes reflect a decisive policy shift from narrative, self-reported disclosure towards standardised, machine-readable, risk-oriented data submission. For foreign subsidiaries with significant intercompany transactions (management fees, royalties, software licensing, technical services, intra-group loans), the content of this section warrants immediate attention.

1. Form 3CEB Replaced by Form 48: A Substantive Overhaul

Form 3CEB - the Accountant's Report on international transactions and Specified Domestic Transactions (SDTs) - has been replaced in its entirety by Form 48. Form 48 is a fundamentally redesigned, data-rich reporting format. Key changes are provided below:

Aspect	Form 3CEB	Form 48
Structure	Clause-by-clause reporting per transaction	Six functional Parts and 11 structured Clauses
Depth of Disclosure	Basic transaction details and method used	Detailed benchmarking data: comparables, range, comparability adjustments all within the form itself
APA Coverage Mapping	Not required	Mandatory mapping of APA-covered transactions date, acknowledgment number, coverage extent (newly added)
TP Study Confirmation	Not required	Statutory obligation to confirm whether a TP Study/documentation has been maintained (newly added)
AE Count Disclosure	Not required in standard format	Mandatory disclosure of number of Associated Enterprises
Method-wise ALP Illustration	Narrative only	Full method-wise ALP computation illustrations for all five TP methods required
Data Format	Narrative/textual disclosure	Standardised, machine-readable data submission enabling automated risk-based scrutiny
Applicability	AY 2026-27 and earlier	Tax Year 2026-27 onwards (effective AY 2027-28)
Structure	Clause-by-clause reporting per transaction	Six functional Parts and 11 structured Clauses

The six parts of Form 48 organise disclosures into functional modules, enabling the tax authorities to directly extract and analyse pricing data without needing to review lengthy TP documentation. This represents a fundamental shift towards automated risk-based scrutiny of cross-border related-party transactions. Form 48 (TP report) data is designed for machine-readability and cross-verification with other regulatory filings. TP data from Form 48 may be shared with foreign tax authorities under exchange of information provisions, increasing the risk of coordinated TP scrutiny by both Indian and foreign tax authorities.

2. Safe Harbour Rules (SHR): Rationalisation and New Thresholds

The Safe Harbour regime has been significantly rationalised, particularly for the IT sector, directly relevant to many foreign subsidiaries in India engaged in software development and captive IT services.

Category	Earlier SHR Position	New Position (Budget 2026 + IT Rules 2026)
IT Services, ITeS, KPO, Software R&D	Multiple categories with margin range of 17%-24% across categories	Consolidated into single 'Information Technology Services' category with uniform margin of 15.5%
Eligibility Threshold - IT Services	INR 300 crore (approx. USD 32 million)	Raised significantly to INR 2,000 crore (approx. USD 214 million)

Application Process	Manual application to Assessing Officer	Rule-based, automated process
Safe Harbour Form	Form 3CEFA (earlier)	Form 49 (new) with enhanced disclosure requirements and one-time threshold testing
Data Centres	Not covered	15% safe harbour margin on costs for Indian entities providing services to related parties for data centre investments (newly added)
Electronics Manufacturing / Logistics	Not covered	2% margin on invoice value for non-resident entities regarding storage in bonded warehouses (newly added)
Safe Harbour + MAP	SHR adoption bars MAP invocation	MAP still barred if SHR adopted (no change)

3. Advance Pricing Agreement (APA) Programme: Expedited Framework

The APA programme has been strengthened considerably, with the following key changes relevant to foreign subsidiaries:

- **Fast-Track Unilateral APAs for IT Service Companies:** APA authorities are now mandated to conclude unilateral APAs for IT service providers within two years from the date of application - a significant reduction from the earlier uncapped timeline
- **APA Rollback Condition:** APA rollback (applying agreed pricing to prior years) is now conditional on the taxpayer having filed the return of income on or before the original prescribed due date under IT Act, 2025. Late filers lose rollback eligibility.
- **Modified Return for APA Refunds:** AEs covered by an APA entered into on or after 1 April 2026 may file a modified tax return to claim refunds of excess TDS or taxes applicable to fiscal years beginning on or after 1 April 2026
- **Multi-Year ALP Option:** Taxpayers may opt to apply the ALP determined for a particular year to 'similar' international transactions or SDTs for the two immediately succeeding years. The TPO shall validate the option within one month.
- **Block Transfer Pricing Assessments:** New rules enable multiple-year TP assessments in a single proceeding, reducing the compliance burden of year-by-year scrutiny
- **Fixed Calendar Deadline for TPO Orders:** 30 January (non-leap year) / 31 January (leap year) replacing the earlier ambiguous relative day count calculation.

4. Advance Pricing Agreement (APA) Programme: Expedited Framework

The BEPS Action Plan 13 three-tier documentation framework (CbCR / Master File / Local File) continues unchanged in substance. Refer Annexure A for revised form numbers:

Tax Deduction at Source (TDS): Revised Framework

The TDS architecture undergoes the most significant structural transformation. The IT Act, 1961 contained over 60 individual TDS sections (the 192-194 series) each with separate thresholds, rates, and provisos. The IT Act, 2025 consolidates all of these into three parent sections, supported by a numeric payment code system for return filing.

5. New TDS Section Architecture

New Section	Coverage	Replaces (IT Act, 1961)
Section 392	TDS on Salary payments	Section 192, 192A
Section 393	TDS on all other payments - structured in 3 tables for (a) Residents, (b) Non-Residents, (c) Any Person	All of 194A, 194C, 194D, 194DA, 194H, 194I, 194J, 194N, 194R, 194S and all other 194-series sections
Section 394	Tax Collection at Source (TCS)	Section 206C and all TCS provisions

6. Numeric Payment Code System

A critical operational change is the introduction of numeric payment codes (1001-1092) to replace section-number-based reporting in TDS returns and challans. Deductors shall now use these codes in all return filings from Tax Year 2026-27 onwards. Refer Annexure B for examples of payment code mapping for common transactions.

7. Provisions for Non-Resident Payments

Section 393(2) of IT Act, 2025 consolidates all TDS obligations on payments to non-residents, replacing the omnibus Section 195 of IT Act, 1961. The substantive obligations remain the same, i.e., TDS shall be deducted on any sum chargeable to tax in India - but the procedural framework changes:

- Payment codes under Section 393(2) replace the old Section 195 reference in Form 144 (new Form 27Q equivalent)
- Lower/Nil TDS certificate applications shall now be filed under the corresponding provision of IT Act, 2025.

For foreign parent companies receiving income from their Indian subsidiaries (royalties, fees for technical services, dividends, interest), the applicable TDS rates under domestic law and the DTAA remain unchanged. However, instead of the earlier documentation requirements, now Form 41 (replacing Form 10F) along with a valid Tax Residency Certificate (TRC) and a No Permanent Establishment (No PE) declaration would be required.

Forms and Filing Requirements

1. Procedural Changes in TDS/TCS Compliance - Due Dates & Filing

Deposit due dates

Under the earlier regime, as per Rule 37CA(2) of the Income-tax Rules, 1962 ("IT Rules 1962"), TCS collected in any month, including March, was required to be deposited by the 7th of the following month, whereas Rule 30(2) provided that TDS deducted in March was to be deposited by 30 April and in other cases by the 7th of the following month, with specified provisions (sections 194-IA, 194-IB, 194M and 194S) requiring deposit within 30 days from the end of the month.

Under Rule 218(2) of the IT Rules 2026, this position has been rationalised such that both TDS deducted and TCS collected in March are required to be deposited by 30 April, while for other months the due date continues to be the 7th of the following month, thereby aligning the due date for TCS in March with that of TDS and resulting in a substantive change in compliance timelines.

Quarterly statement filing

Under the earlier regime, TCS statements under Rule 31AA of the IT Rules, 1962 were required to be filed by the 15th of the following month (and 15th May for Q4), whereas TDS statements under Rule 31A were due by the 31st of the following month (and 31st May for Q4).

Under Rule 219 of the IT Rules 2026, this distinction has been removed and TCS due dates have been aligned with TDS, such that both TDS and TCS quarterly statements are now required to be filed by the 31st of the following month (31st May for Q4).

Mandatory e-filing

The new Rules introduce a uniform digital compliance framework by mandating compulsory e-filing of TDS and TCS statements for all deductors and collectors without exception. Under the earlier regime, physical filing remained permissible for smaller deductors (other than company, person liable for tax audit, person having 20 or more deductees). This carve-out has been withdrawn, and e-filing is now compulsory across all categories.

2. TDS Forms: Old and Revised Form Numbers (Refer Annexure C)

3. Tax Audit Forms: Old and Revised Form Numbers (Refer Annexure D)

4. Return of Income Forms (ITR)

For Financial Year 2025-26 / Assessment Year 2026-27, being the final assessment year under the existing tax regime, there are no material compliance changes in the prescribed return forms.

From Tax Year 2026-27 onwards, income-tax returns will be filed under the Income-tax Act, 2025. Such ITRs are yet to be notified.

5. Remittance & International Payment Forms

A. Form 10F v/s Form 41

Under the earlier regime, Rule 21AB of the IT Rules 1962 provided relaxation from furnishing Form 10F to the extent prescribed details were already contained in the Tax Residency Certificate (TRC). However, Rule 75 of the IT Rules 2026 mandates that prescribed information shall be furnished in Form 41 even if TRC contains all specified information, without providing a similar exception.

This is a significant change compared to the prior regime. Practitioners should note that even non-residents with comprehensive TRCs will now need to file Form 41 separately, creating additional administrative burden. Consider flagging this explicitly for Japanese parent entities that may be accustomed to relying on their TRCs alone.

B. Form 15CA v/s Form 145

Under Rule 37BB of the IT Rules 1962, Form 15CA required disclosure of the RBI Purpose Code for the nature of remittance and the name and branch of the remitting bank. Under the IT Rules 2026, Form 15CA is substituted by Form 145, with the following changes to disclosure requirements:

- Nature of remittance is now disclosed descriptively, such as equipment rental, engineering services, software licenses, capital gains, other income / other (not in the nature of income)
- Where the bank and Authorised Dealer (AD) differ, AD details are required, including optionally the AD's ITDREIN for SFT reporting.
- PAN of the verifying signatory is now mandatorily disclosed.

- Where the recipient lacks a PAN, their foreign TIN or UIN in absence of a TIN is mandatory.
- Accountant details, i.e., PAN, UDIN, and FRN are now required.
- Where remittance on account of royalty, FTS, interest, or dividend is non-taxable under a treaty (not connected with a PE), the earlier form did not require reasons for non-deduction. Form 145 now mandates such reasons, for instance, FTS to a US entity where the make available condition is not satisfied, or royalty to an Irish entity for aircraft lease rentals.
- For remittances on account of capital gains, the revised CA certificate requires disclosure of date of sale, total sale consideration, date and cost of acquisition, and cost of improvement.

It is suggested that Indian subsidiaries shall update their remittance checklists to capture the new Form 145 disclosure fields, particularly the descriptive nature of remittance and AD details.

C. Remittance & International Payment Forms: Old and Revised Form Numbers (Refer Annexure E)

PAN and TAN compliance

Under the Income-tax Act, 2025, the application forms relating to Permanent Account Number (PAN) and Tax Deduction and Collection Account Number (TAN) have no substantive change. Refer Annexure F for revised form numbers.

However, an important procedural requirement has been introduced in relation to foreign entities. Non-resident applicants are now required to furnish details of a mandatory local representative in India as part of the application process. This includes particulars such as the representative’s Permanent Account Number (PAN), contact details, and address in India.

Procedural & Digital Compliance Changes

ERP and System Updates Required

The Indian subsidiaries of foreign MNCs shall update their ERP and Systems as below before processing any transaction from 1 April 2026:

- Replace all 194-series section references with new Section 393 codes and numeric payment codes (1001-1092) for TDS compliance.
- Update TDS return filing templates to Form 138, Form 140, Form 144, and Form 143 (replacing Forms 24Q, 26Q, 27Q, 27EQ)
- Update TDS certificate generation to Form 130 (salary) and Form 131 (non-salary) replacing Forms 16 and 16A.
- Update vendor master records with appropriate Section and TDS code references.
- Update reporting for Form 145 / Form 146 (foreign remittances) with new section references.

Annexure A - Old and Revised Form Numbers (CbCR and Master File)

Form Purpose	Old Form Number	New Form Number
Country-by-Country Report (CbCR)	Form 3CEAC / 3CEAD	Form 58/ 59
Master File	Form 3CEAA / 3CEAB	Form 56/ 57
Surrogate CbCR notification	Form 3CEAE	Form 60

Annexure B (Payment code mapping for common transactions)

Nature of Payment	Old Section (IT Act, 1961)	New Section (IT Act, 2025)	Payment Code
Payments to resident contractors	194C	Section 393(1) - Table Sl. No. 6(i)	1023 / 1024
Professional/Technical fees (resident)	194J	Section 393(1) - Table Sl. No. 6(iii)	1026/ 1027/ 1028
Payments to non-residents (Royalty, FTS)	195	Section 393(2) - Table Sl. No. 17	1057
Rent (resident)	194I	Section 393(1) - Table Sl. No. 2(ii)	1008/ 1009

Annexure C - Old and Revised Form Numbers (TDS)

Form Purpose	Old Form Number	New Form Number
Quarterly TDS return - Salary	Form 24Q	Form 138
Quarterly TDS return -Non-Salary Resident	Form 26Q	Form 140
Quarterly TDS return - Non-Resident payments	Form 27Q	Form 144
Quarterly TCS return	Form 27EQ	Form 143
Annual TDS Certificate - Salary	Form 16	Form 130
Annual TDS Certificate - Non-Salary	Form 16A	Form 131
TCS Certificate	Form 27D	Form 133
Lower/Nil TDS Certificate	Form 13	Form 128

Annexure D - Old and Revised Form Numbers (Tax Audit)

Form Purpose	Old Form Number	New Form Number	Notes
Tax Audit Report (3 separate forms)	Form 3CA + Form 3CB + Form 3CD	Form 26 (unified)	Three audit forms consolidated into single Form 26. Major new disclosure: quantitative details of TDS defaults (not just qualitative declarations)

MAT (Minimum Alternate Tax) Certification	Form 29B	Form 66	
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Annexure E - Old and Revised Form Numbers (Remittance & International Payment)

Form Purpose	Old Form Number	New Form Number	Notes
Certificate by Chartered Accountant for foreign remittances	Form 15CB	Form 146	
Undertaking by remitter for foreign remittances	Form 15CA	Form 145	Enhanced Disclosure Requirements (Refer Form 15CA v/s Form 145 Para)
DTAA self-declaration by non-resident	Form 10F	Form 41	Form 41 made mandatory in all cases (no relaxation based on TRC completeness) Expanded reporting fields like contact details, TRC attachment, Indian communication address and PAN (if available)
Tax Residency Certificate Application	Form 10FA	Form 42	

Annexure F - Old and Revised Form Numbers (PAN and TAN)

Applicant Category	Old Form Number	New Form Number
Indian citizens and companies (including Indian subsidiaries)	Form 49A	Form 93
Non-residents and foreign entities (including foreign parent companies)	Form 49AA	Form 95
TAN Application (for deductors)	Form 49B	Form 135

Contributors & Disclaimer

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