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Taxation and Other Laws (Amendment) Bill, 2026 Proposes Major Tax Reforms to Boost Investment

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Recent Developments:

- The Government has introduced the **Taxation and Other Laws (Amendment) Bill, 2026** proposing wide-ranging tax reforms aimed at attracting foreign investment, strengthening manufacturing and enhancing tax certainty.
- The Bill proposes relaxation of tax conditions for **offshore investment funds**, extension of tax incentives for **electronics contract manufacturing**, tax relief for **data centres**, and exemptions for certain foreign investors.
- The Bill also seeks to replace the **Income-tax (Amendment) Ordinance, 2026**, which provided tax relief to foreign investors in Government securities.

Background:

Need for Tax Reforms:

- India has undertaken several tax reforms in recent years to attract global capital, strengthen domestic manufacturing and emerge as a preferred destination for international fund management.
- Industry stakeholders have argued that certain provisions under the tax framework imposed restrictive conditions on offshore investment funds and created compliance challenges for multinational companies.
- Sectors such as **electronics manufacturing, data centres, digital infrastructure** and financial services have sought greater policy certainty and a more competitive tax regime.
- In response to stakeholder representations and changing global economic conditions, the Government has proposed amendments through the **Taxation and Other Laws (Amendment) Bill, 2026**.
- The proposed reforms seek to simplify the tax framework, improve **Ease of Doing Business (EoDB)**, enhance India's competitiveness and support strategic sectors of the economy.

Key Highlights of the Proposed Tax Reforms:

Relaxation of Tax Conditions for Offshore Funds:

- The Bill proposes significant changes in the taxation framework governing **Eligible Investment Funds (EIFs)** or offshore investment funds managed from India.
- At present, offshore funds are required to satisfy 13 conditions to ensure that fund management activities undertaken in India do not create a taxable business presence.
- The proposed amendments seek to remove 8 of the existing 13 conditions, thereby substantially reducing compliance requirements.

Conditions Proposed to be Removed:

- Requirement of a minimum of 25 investors in the fund.
- Restriction limiting a single investor's participation interest.

- Restriction on investing more than a specified proportion of the corpus in a single entity.
- Restriction on investment in associate entities.
- Requirement relating to minimum monthly average corpus size.
- Other structural conditions considered inconsistent with international fund management practices.

Conditions Proposed to Continue:

- The fund should not be a resident of India.
- The fund should not directly or indirectly control or manage any business in India.
- Investment by Indian residents should remain within the prescribed threshold of the corpus during the relevant financial year.
- Other core safeguards intended to prevent tax avoidance and artificial business presence in India will continue.

Expected Impact on Fund Management Sector:

- The revised framework is expected to improve India's attractiveness as a destination for global fund management activities.
- The reforms are expected to bring greater alignment between offshore funds operating from India and those located in the **International Financial Services Centre (IFSC)**.
- The changes may encourage foreign funds to appoint India-based fund managers without triggering adverse tax consequences.

Extension of Tax Incentives for Electronics Contract Manufacturing:

Extension of Existing Incentives:

- The Bill proposes to extend tax exemptions available to foreign companies supplying **capital goods, machinery, equipment** or tooling to Indian electronics contract manufacturers.
- The tax incentive, earlier available up to **2030–31**, is proposed to be extended by ten additional years up to **2040–41**.

New Exemptions for Electronics Supply Chains:

- The Bill introduces a new tax exemption for foreign companies involved in:
- Storage of electronic components in **customs-bonded warehouses**.
- Sale of such components to Indian electronics contract manufacturers.
- The measure seeks to facilitate efficient supply chains and reduce tax-related uncertainty for multinational corporations.

Expected Benefits:

- The proposal is expected to provide long-term policy certainty for global electronics companies.
- The reforms are likely to strengthen India's position within global electronics value chains.
- The measures support broader initiatives aimed at expanding domestic electronics manufacturing under **Make in India**.

Tax Relief for Data Centres:

Proposed Measures:

- The Bill proposes several tax-related measures to promote investment in data centre infrastructure.
- The definition of an eligible data centre is proposed to be expanded to include facilities operated through both ownership and leasing arrangements.

- The requirement for separate Central Government notification for certain foreign companies procuring data centre services from specified facilities is proposed to be removed.
- The reforms seek to align the tax framework with prevailing commercial practices in the digital economy.

Significance:

- The measures are expected to reduce procedural hurdles for investors.
- The reforms support India's ambition to emerge as a global hub for cloud computing, digital infrastructure and AI-enabled services.

Tax Holiday for Diamond Trading Entities:

Proposed Exemption:

- The Bill proposes a **15-year tax holiday** extending up to **31 March 2041** for specified foreign entities operating in notified special zones.
- The exemption is proposed for entities engaged as:
- Mining companies.
- Sightholders.
- Brokers.
- Aggregators.
- Tender or auction entities.
- The exemption covers income earned from the sale of rough diamonds within notified special zones.

Replacement of the Income-tax (Amendment) Ordinance, 2026:

Background:

- The Bill seeks to replace the **Income-tax (Amendment) Ordinance, 2026**, promulgated on **5 June 2026**.
- The Ordinance provided tax relief to **Foreign Portfolio Investors (FPIs)** investing in Government securities.

Key Provisions of the Ordinance:

- Exemption from capital gains tax on investments in Government securities.
- Exemption from withholding tax on specified investments.
- Measures aimed at encouraging foreign capital inflows and supporting domestic financial stability.

Significance of the Proposed Reforms:

Economic Significance:

- The reforms are expected to make India a more attractive destination for global fund management.
- The amendments may enhance the competitiveness of the **International Financial Services Centre (IFSC)**.
- The measures provide long-term tax certainty for electronics manufacturers and global investors.
- The reforms may promote investment in digital infrastructure, cloud services and data centres.
- The proposals are expected to encourage foreign participation in Government securities.
- The reforms may strengthen India's integration into global value chains and international production networks.

Policy Significance:

- The reforms complement flagship initiatives such as **Make in India**, **Digital India** and efforts to improve the **Ease of Doing Business**.

- The amendments reflect India's strategy of combining tax competitiveness with manufacturing expansion and financial sector development.

Related UPSC Concepts:

International Financial Services Centre (IFSC):

- An **IFSC** is a jurisdiction that provides financial services to non-residents and residents dealing with foreign currencies.
- India's IFSC is located at GIFT City.
- The IFSC aims to attract global financial institutions, fund managers and capital market participants.

Foreign Portfolio Investment (FPI):

- **FPI** refers to investments made by foreign investors in financial assets such as shares, bonds and Government securities.
- FPI flows influence exchange rates, capital markets and external sector stability.

Customs-Bonded Warehouse:

- A customs-bonded warehouse is a facility where imported goods can be stored without immediate payment of customs duty.
- Such warehouses support efficient supply chain management and export-oriented manufacturing.

Global Value Chains (GVCs):

- **GVCs** refer to the international fragmentation of production processes across multiple countries.
- Integration into GVCs enhances exports, technology transfer, productivity and employment generation.

Conclusion:

- The **Taxation and Other Laws (Amendment) Bill, 2026** represents a significant step towards creating a more competitive and investment-friendly tax environment.
- By simplifying tax rules, encouraging manufacturing, promoting digital infrastructure and attracting foreign capital, the proposed reforms seek to strengthen India's position as a global investment and production hub.
- Effective implementation of these reforms can enhance economic growth, improve investor confidence and support India's long-term development objectives.

Value Addition for UPSC:

Quick Revision Facts:

- **Taxation and Other Laws (Amendment) Bill, 2026** aims to simplify tax rules and attract investment.
- **Eligible Investment Funds (EIFs)** are offshore investment funds that may qualify for tax exemptions subject to prescribed conditions.
- **International Financial Services Centre (IFSC):** India's global financial hub located at GIFT City.
- **Foreign Portfolio Investors (FPIs)** invest in financial securities without acquiring management control.
- **Customs-Bonded Warehouses** allow storage of imported goods without immediate customs duty payment.
- **Global Value Chains (GVCs)** involve cross-border production networks linking multiple economies.
- **Ease of Doing Business (EoDB)** reforms aim to reduce compliance burdens and improve the investment climate

Kamaraj IAS Academy
Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthi Colony, Anna Nagar, Chennai, Tamil Nadu 600040
Phone: **044 4353 9988 / 98403 94477** / Whatsapp : **09710729833**