

INDIA

REGULATORY

UPDATE 2026

— Effective 1st April 2026

A COMPREHENSIVE MISSIVE ON LANDMARK CHANGES IN
TAXATION • LABOUR LAW • GST • SQM



DIRECT TAXATION

2025 Act • Form 130



LABOUR LAWS

4 Codes



GST & INDIRECT TAX

Critical Compliance



SQM & COMPLIANCE

SQM 1 & 2 • Guidance Note on
NCE & LLP

WHAT'S CHANGING FROM 1ST APRIL 2026

An essential guide for CFOs, HR leaders, compliance officers & business heads

KEY HIGHLIGHTS IN THIS EDITION

- ▶ **Income-tax Act, 2025 Overhaul**- First major rewrite in 64 years; unified Tax Year replaces dual FY–AY system.
- ▶ **Form 130 Introduced** – New system-generated TDS certificate via TRACES; Form 16 now non-compliant.
- ▶ **Enhanced Salary Exemptions** – Meal vouchers, gift vouchers, education & hostel allowances significantly increased
- ▶ **Stricter HRA Compliance** – Landlord PAN, rental agreements, and bank transfer proofs mandatory; new cities in 50% bracket.
- ▶ **Earlier ITR Deadlines** – ITR-1 & 2 due July 31; ITR-3 to 7 due August 31; revised returns allowed till March 31.
- ▶ **Labour Codes Rollout** – Basic pay must be ≥50% of gross CTC; gratuity after 1 year; women allowed night shifts with safeguards.
- ▶ **GST 2.0 Technology Enforcement** – Zero mismatch policy, weekly reconciliation, validated bank accounts, faster export refunds.
- ▶ **Guidance Notes & SQM Standards** – Simplified reporting for NCEs & LLPs (Phase II from April 1, 2026); CA firms to prepare for SQM 1 & 2 transition.

REGULATORY UPDATES ♦ March 2026
EDITION

VOLUME 1

EFFECTIVE
DATE

01 APRIL 2026

REGULATORY & COMPLIANCE UPDATE

Financial Year 2026-27 | April 1, 2026 Onwards

NEW FINANCIAL YEAR GREETINGS

Greetings on Financial Year 2026-27

As we embark upon Financial Year 2026-27, we extend our warmest wishes to you. The year ahead brings transformative regulatory changes affecting every organization. The Income-tax Act, 2025, modernized Labour Codes, quality management standards, and new accounting guidance represent a fundamental reimagining of India's compliance architecture.

This comprehensive missive serves as your roadmap through these transitions.

Key Effective Dates at a Glance

Date	Framework	Applies To
Apr 1, 2026	Income-tax Act 2025	All taxpayers
Apr 1, 2026	New Labour Codes	All employers
Apr 1* (Deferred)	SQM 1 & SQM 2 Standards	All CA firms
Apr 1, 2025 & 2026	Guidance Notes (NCE & LLP)	Non-corporate & LLP entities

*Implementation deferred by ICAI on March 31, 2026. SQC 1 continues. Prepare immediately for future rollout.

1. INCOME-TAX ACT, 2025: COMPREHENSIVE OVERHAUL

The Income-tax Act, 2025 replaces the 1961 Act — the first comprehensive overhaul in 64 years. It is digitally native, risk-based, and transparency-focused.

1.1 From Financial Year to Tax Year

The dual Financial Year–Assessment Year system is replaced with a unified Tax Year, reducing complexity and accelerating compliance timelines.

Old System (1961 Act)	Concept	New System (2025 Act)
Financial Year (Apr-Mar)	Income Period	Tax Year (unified)
Assessment Year (separate)	Tax Assessment	Same timeline (unified)
Form 16/16A certificates	TDS Certificates	Form 130 (system-generated)

1.2 Form 130: The New TDS Certificate

Form 130 replaces Form 16 and is system-generated via TRACES. Enhanced granular reporting but zero tolerance for discrepancies.

- Issued to: Salaried employees and pensioners (Section 402(39) interest earners)
- Contains: Detailed salary breakup, taxable computation, deductions, TDS/TCS
- Deadline: June 15 of following tax year
- System: TRACES (eliminates manual entry errors)
- Form 16A becomes Form 131; Form 27D becomes Form 133
- Any Form 16 issued for TY 2026-27 will be non-compliant
- Payroll software updates mandatory by March 2026

1.3 Enhanced Salary Exemptions

Allowance/Benefit	Previous → New Limit
Meal Vouchers/Cards	Rs 50/meal → Rs 200/meal (Rs 1,05,000 annual benefit)
Gift Vouchers	Rs 5,000/year → Rs 15,000/year
Education Allowance	Rs 100/month → Rs 3,000/month per child (max 2)
Hostel Allowance	Rs 300/month → Rs 9,000/month per child (max 2)

1.4 Stricter HRA Compliance

HRA requires rigorous documentation. System now tracks landlord PAN, rent agreements, and bank transfers via data analytics.

- Landlord PAN mandatory if annual rent exceeds Rs 1 lakh
- Formal rental agreement and payment proof required
- New HRA cities: Bengaluru, Hyderabad, Pune, Ahmedabad (now 50% bracket)
- Data analytics scrutiny on name-rent-PAN mismatches

1.5 ITR Filing Deadlines (Earlier Than Before)

Return Category	Deadline	Note
ITR-1, ITR-2	July 31	Earlier than before
ITR-3 to ITR-7 (non-audit cases)	August 31	Extended window
Revised ITR	March 31 (next FY)	Extended from Dec 31

2. NEW LABOUR CODES: OPERATIONAL FRAMEWORK (April 1, 2026)

Four Labour Codes consolidate 29 laws. While legally effective from November 21, 2025, full operational rollout is April 1, 2026. Most significant labour law reform in decades.

2.1 The 50% Basic Pay Rule (Most Critical for Payroll)

Basic pay must now be 50% or more of gross CTC. This single change increases statutory benefit costs by 5-15% for most organizations. For example:

Old Approach	New Requirement
Basic: Rs 20,000 (33%)	Basic: Rs 30,000 (50% minimum)
Allowances: Rs 40,000 (67%)	Allowances: Rs 30,000 (max 50%)
Gross: Rs 60,000	Gross: Rs 60,000 (same)
PF Impact: Rs 2,400/month	PF Impact: Rs 3,600/month (+50%)

- Fixed-term employee gratuity now after just 1 year (was 5 years)
- Working hours: 8/day, 48/week max; overtime paid at 2× regular rate
- Contract labor threshold raised from 20 to 50 workers
- Migrant workers: Mandatory appointment letters, health checkups, travel allowances
- Women can work night shifts (7 PM-6 AM) with consent and safe facilities

2.2 Employer Compliance Checklist

Priority	Action Item	Timeline
URGENT	Audit CTC—ensure basic pay is 50% or more of gross	Immediate
HIGH	Model 5-15% increase in PF/Gratuity costs in budget	Immediate
HIGH	Issue appointment letters to all employees (now mandatory)	By April 1, 2026

3. GST 2.0: CRITICAL COMPLIANCE CHANGES (Summary Only)

GST shifted from trust-based to technology-enforced. Only material changes highlighted:

1. Zero Mismatch Policy: Portal auto-blocks returns if GSTR-2B differs from GSTR-3B
2. Weekly Reconciliation: Must Accept/Reject supplier invoices via IMS in real-time
3. Bank Account Validation: GSTIN must link to validated account with name match
4. Fast Export Refunds: 90% within 7 days for Green Track exporters

4. GUIDANCE NOTES: NON-CORPORATE ENTITIES & LLP (ICAI - March 31, 2026)

ICAI announced phased applicability of Guidance Notes for financial statements of Non-Corporate Entities and Limited Liability Partnerships. These apply to both existing and new entities.

4.1 What Are These Guidance Notes?

Issued by ICAI in August 2023, these notes provide simplified financial reporting frameworks for:

- Non-Corporate Entities: Sole proprietorships, partnerships, HUFs, associations
- Limited Liability Partnerships: All entities formed under LLP Act, 2008

4.2 Two-Phase Implementation Timeline

Phase	Effective Date	Applies To
Phase I	April 1, 2025 (for FY 25-26 only)	Turnover > Rs. 5 crores
Phase II	April 1, 2026 onwards	All entities (no threshold)

4.3 Key Benefits of These Guidance Notes

- Simplified Framework: Reduces compliance burden while maintaining Indian Accounting Standards (Ind AS) alignment
- Flexible Presentation: Modified financial statement layouts with regulatory compliance
- Transition Guidance: Clear guidance for moving from existing to new accounting practices
- Sector-Specific: Tailored considerations for different business types

4.4 Action Items by Entity Type

5. Phase I: Turnover > Rs. 5 Crores (Already Applicable Since April 1, 2025 for FY 25-26)

Action required immediately if not already transitioned:

- Review accounting practices against Guidance Notes requirements
- Update financial statement presentation formats
- Restate prior year comparatives if needed
- Document transition in financial statement notes

6. Phase II: Turnover <= Rs. 5 Crores (Effective April 1, 2026)

Begin preparation now for FY 2026-27:

- Document current accounting policies
- Identify gaps with Guidance Notes
- Plan transition by September 2026
- Train accounting team on new requirements

4.5 For Chartered Accountant Firms

- Identify each client's phase status based on turnover
- Communicate applicability clearly and timeline
- Maintain documentation of transition rationale
- Prepare audit compliance checklists for Guidance Notes
- Monitor ICAI website for implementation guidance

5. SQM 1 & SQM 2: QUALITY MANAGEMENT STANDARDS FOR CA FIRMS

IMPORTANT (March 31, 2026): ICAI deferred SQM 1 & SQM 2 mandatory date. SQC 1 continues. However, firms should begin preparation immediately for future implementation.

5.1 SQM 1 vs SQC 1: Paradigm Shift

Aspect	SQC 1 (Old)	SQM 1 (New)
Philosophy	Reactive (Control)	Proactive (Management)
Risk Approach	Checklist-based	Risk-based, tailored
Technology	Limited focus	Central—data analytics mandatory
Scope	Firm-level only	Firm and engagement-level

5.2 Eight Core Components of SQM 1

- 1 Governance & Leadership: Firm sets quality objectives; leadership owns design
- 2 Ethical Requirements: Independence, integrity policies across firm
- 3 Engagement Performance: Audit execution, review procedures, EQR requirements
- 4 Resource Management: Competence, capabilities, training for teams
- 5 Information & Communication: Data management, audit trail, client communication
- 6 Monitoring & Evaluation: Continuous assessment; annual evaluation mandatory
- 7 Risk Assessment: Identify quality risks; implement controls
- 8 Client Acceptance & Continuance: Evaluate engagement risks before accepting

5.3 CA Firm Preparation Roadmap

1. Phase 1: Gap Analysis. Document current SQC 1, identify gaps vs SQM 1, assess technology.
2. Phase 2: System Design. Define quality objectives, develop 8-component policies, design procedures.
3. Phase 3: Implementation. Roll out procedures, pilot engagements, identify gaps.
4. Phase 4: Evaluation. Complete annual evaluation, establish monitoring, document remedies.

Thank You

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***Disclaimer** - Our comments in this note are based on our interpretation of the present provisions of the laws as stated above. We have no responsibility to update this note for any change in law or events and circumstances occurring after the date of this note, unless specifically requested.*