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Tax Alert - Key announcements
of Union Budget 2026



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Union BUDGET 2026-27

Budget 2026 enables sustainable growth in Chemical sector



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The global economic landscape continues to be marked by uncertainty, influenced by geopolitical tensions, trade disruptions and varying growth and inflation trends among major economies. Despite the persistence of global uncertainties, domestic growth drivers are anticipated to continue bolstering the Indian economy. With macroeconomic stability established and ongoing reform initiatives in place, the Indian economy seems well-equipped to maintain growth in the near term.

The chemical sector is one of the vital components of India's industrial development, having strong backward linkages with petroleum refining and natural gas processing, as well as forward linkages to various downstream industries. Over the past decade, the production of key chemicals and petrochemicals has shown a steady upward trajectory and the industry is estimated to grow to US\$1 trillion by 2040.

As the Indian Government continues to make confident strides towards *Viksit Bharat*, Budget 2026 inspired by three *Kartavyas* aims at ensuring a balance between ambition and inclusivity, specifically focusing on accelerating and sustaining economic growth by enhancing productivity and competitiveness.

The reforms proposed in the Budget 2026 such as establishing dedicated chemical parks, developing freight corridors and other capital investments shall provide the much-needed stimuli to boost domestic chemical production and reduce reliance on imports.

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How does the budget impact Chemical sector?

With the aim of transforming aspiration into achievement and potential into performance, several key announcements were made to strengthen the manufacturing sector and provide an impetus to the chemical industry.

Boost to manufacturing sector

Capital investments on infrastructure

- Establishing three dedicated Chemical Parks on a cluster-based plug-and-play model enhancing domestic chemical production and reducing import dependency - *positive impact for domestic chemical manufacturers.*
- Setting up "Biopharma SHAKTI" with an outlay of INR10,000 crores developing India as a global biopharma manufacturing hub - *positive impact for speciality chemicals.*
- Increasing outlay for Electronics Components Manufacturing Scheme to INR40,000 crore capitalizing on the momentum - *positive impact for speciality chemicals.*
- Proposal to set up Mega Textile Parks, with a focus on bringing value addition to technical textiles - *positive impact for textile chemical sector.*
- Creating globally competitive container manufacturing ecosystem with an allocation of INR10,000 crore - *positive impact for the chemical sector.*
- Reviving 200 legacy industrial clusters to improve cost competitiveness and efficiency through infrastructure and technology upgradation.
- For the movement of cargo:
 - Establishing new dedicated freight corridors connecting Dakuni to Surat.
 - Operationalizing 20 new National Waterways over five years, including industrial centers like Kalinga Nagar to the ports of Paradeep and Dhamra.

Other announcements

- Achieving higher readiness levels in end-use applications through Carbon Capture, Utilization and Storage technologies across five industrial sectors, **including chemicals**, with an outlay of INR20,000 crore over five years.
- Dedicated initiative for sports goods that will promote manufacturing, research and innovation. - *positive impact for material sciences.*
- Launching India Semiconductor Mission 2.0 producing equipment and materials and focusing on industry-led research and training centers - *positive impact for speciality chemicals.*

Equity support to MSME

- Introducing dedicated SME growth fund of INR10,000 crore, incentivizing enterprises on select criteria.
- Topping up Self-Reliant India Fund with INR2,000 crore, continuing support to micro enterprises.
- Various policy announcements to provide liquidity support to MSMEs.

Highlights

Three dedicated Chemical Parks



INR12.2 lakh crore

Total capital investment outlay for FY27



INR40,000 crore

Electronics Components Manufacturing Scheme



INR10,000 crore

SME growth fund



INR20,000 crore

Carbon Capture, Utilization and Storage technologies

Key Direct Tax related proposals

- No change in individual and corporate tax rates (except MAT).

Key Indirect Tax related proposals

- BCD rates reduced/exempted for products as below:

Chapter / CTH	Goods	Effective date
Ch 26 - 2612 20 00	Monazite	2 February 2026
Ch 28 - 2841 90 00	Sodium antimonate (for solar glass)	2 February 2026

- BCD exemption withdrawn - moving back to applicable tariff rate as below:

Chapter / CTH	Goods	Effective date
Ch 28 - 2815 20 00	Potassium hydroxide	2 February 2026
Ch 23	Castor oil cake and castor de-oiled cake (supplied from SEZ to DTA)	1 April 2026
Ch 28 / 38	Silicon for manufacturing of un-diffused wafers and un-diffused silicon wafers for manufacturing of solar cells or solar cell modules	1 April 2026
Ch 29	Maltol for use in the manufacture of deferiprone	1 April 2026

- Concessional 5% BCD withdrawn - moving back to applicable tariff rate as below:

Chapter / CTH	Goods	Effective date
Ch 29	Alpha pinene	2 February 2026
Ch 31	Ammonium phosphate / ammonium nitro phosphate for use as manure or for production of complex fertilizers	2 February 2026
Ch 38 - 3824 99 00	Zeolite for use in the manufacture of wash coat for catalytic converters	1 April 2026

- Concessional BCD rate on import of certain goods extended as below:

Chapter / CTH	Goods	Exemption valid till
2844	Medical use fission Molybdenum-99 (Mo-99) for use in the manufacture of radio pharmaceuticals	31 March 2028
2852, 3822	Pharmaceutical Reference Standard	31 March 2028
2914 61 00, 2914 69 30, 2914 69 90	Anthraquinone or 2-Ethyl Anthraquinone, for use in manufacture of hydrogen peroxide	31 March 2028
3824 99 00, 8505 11 90	Specified goods for use in the manufacture of BLDC motors	31 March 2028

- New tariff line items created (effective 1 May 2026) as below:

Chapter / CTH	Goods	New tariff item created
2841	Ammonium metavanadate	2841 90 10
29	Gibberellic acid	2932 20 40
29	Triethyl orthoformate	2915 90 96
29	Diethyl malonate	2917 19 22
29	DL-2 Aminobutanol	2922 19 30
29	Aceto butyrolactone	2932 20 50
29	Artemisinin	2932 99 30
29	Thymidine	2934 99 50

Impact analysis

In pursuit of Viksit Bharat and keeping Atmanirbharta as the lodestar, the Government has strived to build domestic manufacturing capacity and reduce import dependence.

While the Indian economy is encountering a challenging external environment with trade and multilateralism being imperilled, leading to disruptions in access to resources and supply chains, the Indian economy has maintained growth momentum at 7.4% in FY2025-26, a notable uptick from 6.5% in the previous fiscal year. The Indian chemical industry has long been anticipating sector-specific reforms, including the PLI scheme, to enhance its growth trajectory and competitiveness. Oversupply, especially from China, kept prices under pressure across several commodity chains, while sluggish European demand and inventory adjustments affected export profitability of the sector.

Against this backdrop, with significant capital outlay in Budget 2026 aimed at stimulating manufacturing and infrastructure development, the chemical sector is set to experience a transformative impact. Budget 2026, being a unique Yuva Shakti-driven Budget is inspired by a three-fold approach: momentum of structural reforms, robust and resilient financial sector and cutting-edge technologies.

The establishment of dedicated plug-and-play chemical parks, as announced in Budget 2026, are poised to significantly enhance the competitiveness of the Indian chemical sector by providing a focused environment for production, innovation and collaboration. These parks will facilitate the clustering of chemical manufacturers, enabling economies of scale and shared infrastructure, which can lead to reduced operational costs and increased efficiency, thereby supporting import substitution and capturing a larger share of the global supply chain. Additionally, the parks will attract investment and foster research and development, driving technological advancements and sustainability best practices within the industry. By fostering an environment conducive to growth, the Government is encouraging the establishment of new chemical plants and the adoption of advanced technologies, leading to the creation of innovative, value-added products in safe and sustainable sites.

Various reforms for the manufacturing sector will have a positive ripple effect on the chemical industry by offering significant growth opportunities, enhancing overall production capabilities, thereby positioning it for long-term success. The three-pronged support for MSMEs in Budget 2026 will be crucial in driving growth for domestic manufacturers and improving their ease of doing business, thereby providing a significant boost to the Indian chemical sector.

The Government's commitment to improving infrastructure will facilitate the efficient and safe movement of raw materials and finished products reducing operational costs as well as improving supply chain efficiency, allowing chemical manufacturers to respond more swiftly to market demands.

While the sector-specific reforms outlined in Budget 2026 have created an attractive climate for investment, innovation and scaling, the chemical industry continues to await the PLI scheme, which could catalyze India as a global hub for chemical manufacturing.

Glossary

BCD - Basic Customs Duty

BLDC - Brushless Direct Current

CTH - Customs Tarriff Heading

GVA - Gross Value Added

MAT - Minimum Alternate Tax

MSME - Micro, Small and Medium Enterprise

PLI - Production linked incentive

SHAKTI - Strategy for Healthcare Advancement through Knowledge, Technology and Innovation



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