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Tax Alert - Key announcements  
of Union Budget 2026



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# Union **BUDGET** 2026-27

## **Budget signals government support to build a strong and competitive AVGC and tourism sector, aligned with tax simplification and certainty**

As creativity converges with AI capabilities, budget sets the stage for a competitive and globally aligned industry!



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The Union Budget 2026 underscores the government's commitment to strengthen India's creative and tourism ecosystems through targeted investments in Animation, Visual Effects, Gaming and Comics (AVGC) skill development, destination digitization and hospitality education, complemented by rationalized tax provisions to support the broader M&E industry.

The Budget also proposes tax reforms toward simplification, certainty and governance, including Safe Harbour rationalizations, crypto reporting penalties, and revised customs duty on imports impacting content- and tech-driven businesses.

# How does the budget impact the M&E sector?

## Government support for the AVGC sector:

- India's AVGC sector is projected to require two million professionals by 2030. The government will support the Indian Institute of Creative Technologies, Mumbai, in setting up AVGC Content Creator Labs in 15,000 secondary schools and 500 colleges.
- Steady pipeline of skilled content creators, animators, game developers, VFX artists will help India emerge as a global hub for outsourcing work and build an able creator economy.

## Tourism focused reforms:

- Set up a National Institute of Hospitality that will function as a bridge between academia, industry and the government.
- Pilot scheme for upskilling 10,000 guides at 20 iconic tourist sites through a standardized, high-quality 12-week training course in hybrid mode, in collaboration with an Indian Institute of Management.
- A National Destination Digital Knowledge Grid will be established to digitally document all places of significance—cultural, spiritual and heritage.
- Development of ecologically sustainable mountain, turtle and bird watching trails.
- Development of archeological sites.
- Development of destinations in North-East India.
- Development of five regional medical hubs.

With the above reforms, it appears that the government has acknowledged that different forms of tourism (travel, medical, etc.) can play a pivotal role in employment generation, forex earnings and help push economic growth.

## India GCCs:

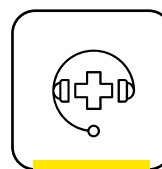
- The government has proposed that software development, Information Technology enabled Services (ITeS), Knowledge Process Outsourcing (KPO) services and contract research and development (R&D) related to software will be clubbed within the broader framework of IT Services (erstwhile, each of these was separately nomenclated with a separate mark-up ranging from 17% to 24%).
- A 15.5% Safe Harbour margin can be applied.
- Threshold for application of Safe Harbor has been materially extended to ~US\$220 million from the earlier ~US\$33 million.
- Safe Harbour can be applied for five years at a stretch, through an automated rule-driven process.

The above proposal has the potential to mitigate onerous transfer pricing litigation and provide cost certainty to foreign MNCs having or setting up new GCCs in India.

## Highlights



### Support in setting up Content Creator Labs for the AVGC sector



### Development of medical hubs, historic, cultural and natural tourist sites



### Combined Safe Harbour TP margin for India GCCs

# Key income tax proposals for the M&E sector:

## Penalty for non-compliance in reporting crypto transactions:

- A fresh compliance provision has been introduced under the New Income Tax Act, 2025, obligating qualifying persons and entities to furnish specified information on crypto-asset transactions. To ensure compliance and create a deterrent against non-furnishing or furnishing inaccurate information, the Union Budget 2026 has proposed the introduction of penalty provisions w.e.f. 1 April 2026 as follows:
  - Levy of penalty of INR200 per day for non-furnishing of statement.
  - Levy of penalty of INR50,000 for furnishing inaccurate particulars or failure to correct inaccuracy.

## Extended tax incentives for GIFT/IFSC units:

- Tax deduction period extended to 20 consecutive years out of 25 years for GIFT / IFSC units (currently 10 out of 15 years).
- Business income of GIFT / IFSC units to be taxed at a concessional rate of 15% after the expiry of the deduction period.

## Tax holiday for foreign companies offering data center services using India's data infrastructure(s):

- Tax holiday until 2047 for foreign companies offering data center services to Indian users, subject to eligibility conditions.

## Status quo:

- No change in corporate tax rates.
- No change in capital gains tax rate.
- No new levies/ charges.
- No update on timelines for implementation of OECD Pillar 1 and 2.

# Indirect Tax proposals:

## Place of supply for 'intermediary services':

- The place of supply for 'intermediary services' is proposed to be the location of the recipient instead of the location of the supplier. Pursuant to the enactment of this proposed amendment prospectively, service providers offering facilitation, agency and intermediary services should be eligible to claim export benefits. While this enables service providers to claim zero-rating benefits on output services, it should also help them liquidate GST input tax credits.
- This shall have a positive impact on sectors of advertising, back offices, marketing service providers and India GCCs.

## Relaxation for adjusting GST liability on post-sale discounts:

- The requirements for adjusting GST liability on post-sale discounts have been relaxed whereby the condition to have a prior agreement and linking of the original invoice has been done away with. It is proposed that any post-supply discount shall be allowed as a reduction in GST liability provided a credit note is issued and GST input tax credit is reversed by the recipient.

## Withdrawal of Basic Customs Duty exemptions:

- The Basic Customs Duty exemptions available on several goods were set to be withdrawn from 1 April 2026. While the benefit has been extended to several goods, it has not been extended to the import of motion pictures, music and gaming software recorded on physical media. This shall entail a higher Customs Duty to be paid on such imports made on or after 1 April 2026. Similar exemptions available for the temporary import of filming, photographic, and sound-recording equipment by foreign film/TV units have also been restricted up to 31 March 2026.
- The Basic Customs Duty exemption or concessional rates on the import of CD-ROMs containing books of an educational nature, journals, periodicals (magazines), or newspapers are withdrawn w.e.f. 2 February 2026.

## Impact analysis

The Union Budget presents a forward-looking blueprint for strengthening India's creative economy, with distinct emphasis on the AVGC, education and tourism sectors. The proposed initiatives aimed at youth upskilling and technology-driven capability development are well-timed and expected to stimulate foreign investment while deepening domestic participation across these sectors.

On the tax side, providing clarity and certainty on TP margins for various IT/ITeS and software development-focused India GCCs through the Safe Harbour provision is a welcome move. The tax proposal announcements reflect the Government's commitment to further rationalization and simplification of the tax framework.

# Glossary

AI - Artificial Intelligence

AVGC - Animation, Visual Effects, Gaming and Comics

CD-ROMs - Compact Disc - Read-Only Memory

GCC - Global Capability Centre

GIFT City - Gujarat International Finance Tec-City

GST - Goods and Services Tax

IFSC - International Financial Services Centre

ITeS - Information Technology enabled Services

IT Services - Information Technology Services

KPO - Knowledge Process Outsourcing

R&D - Research and development

VFX - Visual Effects



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