

# Union BUDGET 2026-27

## Measures for energy security for Viksit Bharat

An overview of Budget 2026's key tax proposals and their potential impact on oil and gas sector



Neetu Vinayek

Partner and Leader, Infrastructure Sector,  
Tax & Regulatory Services, EY India



The oil and gas sector stands at a critical juncture, shaped by global geopolitical scenarios, trade tariffs, global energy transitions, volatile pricing and evolving tax landscapes. Recently, while addressing the inaugural session of India Energy Week 2026 in Goa virtually, Hon'ble PM Narendra Modi mentioned that India is aiming to attract US\$100 billion in investments into the oil and gas sector and further stressed upon the need for India to move from "energy security to energy independence" by building a strong domestic energy ecosystem capable of meeting local demand.

Considering the dynamic geopolitical scenarios and the need to be self-reliant, although there are no specific announcements for the oil and gas sector, the Budget has continued to earmark some key fund allocation as under:

- Investment in Public Enterprises:
  - INR60,108.73 crore - investment in refinery and marketing sector
  - INR57,612.86 crore - investment in exploration and production
  - INR16,001.41 crore - investment in petrochemical sector
- INR20,000 crore for next five years for scheme to adopt Carbon Capture Utilization and Storage (CCUS)
- INR200 crore each for investments in 'strategic oil reserves' and 'Mission Anveshan'
- INR100 crore for scheme for providing financial support for collection of biomass

# How does the Budget impact oil and gas sector?

## Highlights

### Key amendments

#### Direct Tax

##### Changes in tax rates

- The Income-Tax Act, 2025 will come into effect from 1 April 2026 (relevant for tax year 2026-27). The rules and forms are to be notified.
- No changes in tax rates proposed for domestic (non-IFSC) and foreign companies. However, MAT proposed to be reduced from existing 15% to 14% (refer detailed update below).
- No specific proposal on Pillar Two/ Global Minimum Tax implementation in India.

##### Extension of period of deduction for units in IFSC and rationalization of tax rate

- Currently, 100% tax deduction on income of an eligible unit in IFSC is available for a period of 10 consecutive years out of 15 years. Further, taxes are levied at applicable rates in force after expiry of such 10 year period of tax deduction. It is proposed:
  - To extend the deduction period to 20 consecutive years out of 25 years.
  - Tax on income of IFSC unit after expiry of period of deduction at the rate of 15% (as increased by applicable surcharge and Health and Education Cess).
  - That the deduction is subject to the condition that the IFSC unit (commencing operations on or after 1 April 2026) is not formed by splitting up or reconstruction or reorganisation or transfer of a business already in existence in India.
- This amendment will be effective from 1 April 2026 (tax year 2026-27).

##### Rationalization of terms used in deemed dividend exemption to corporate treasury centers in IFSC

- Currently, there is an exemption from deemed dividend provisions in case of loan or advance between two group entities where one of the group entity is a corporate treasury center in IFSC and parent or principal entity of such group is listed in a country or territory outside India.
- Now, following amendments have been proposed:
  - the other group entity to the transaction shall be located in a country or territory outside India
  - the country or territory for both purposes i.e. location of other transacting group entity and parent or principal entity, shall be notified by the central government
  - the terms 'group entity' and 'parent entity' or 'principal entity' are now defined
- This amendment will be effective from 1 April 2026 (tax year 2026-27).

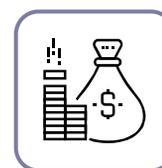
Simplified income tax rules and forms will be notified shortly

#### IFSC tax holiday extension

**10**  
years



**20**  
years



**Shift from penalty to fee**

## Buyback Tax

- Consideration received by shareholders on share buybacks (for buybacks undertaken on or after 1 October 2024) is currently treated as dividend income and taxed in the hands of shareholders at rates in force. Further, the cost of acquisition of shares tendered in a buyback is treated as a capital loss
  - It is proposed that consideration received on buy-back of shares chargeable to tax under the head 'capital gains', instead of being treated as dividend income.
  - However, additional income tax on capital gains shall be payable by 'promoter' shareholders, which shall result in effective tax at 22% (for domestic corporate shareholders) and 30% (for others).
  - No additional income tax in case of capital gains in the hands of non-promoter shareholders.
- This amendment will be effective from 1 April 2026 (tax year 2026-27).

## Rationalization of Safe Harbour rules

- Currently, software development, ITES, knowledge process outsourcing and contract R&D services are considered as separate categories with differing Safe-Harbour margins ranging from 17% to 24%.
- Now, these services are proposed to be clubbed under a single category of IT services with a common Safe Harbour margin of 15.5% and the threshold for availing such Safe Harbour has been enhanced from INR300 crore to INR2,000 crore.
- Also, data center services are now eligible for coverage under Safe Harbour with a margin of 15%.
- The effective date of these amendments and the detailed rules are awaited.

## Time-limit for concluding Unilateral Advance Pricing Agreements (UAPAs) for IT services companies

- Currently, there is no prescribed time-limit for conclusion of UAPAs.
- Now, UAPAs for IT services shall be fast-tracked to be concluded within two years, extendable by six months at the taxpayer's request.

## Rationalization of MAT provisions

- MAT rate proposed to be reduced from 15% (plus surcharge and cess) to 14% (plus surcharge and cess).
- Currently, the New IT Act provides for generation of MAT credit to the extent liability under MAT provisions is higher as compared to normal provisions; it is now proposed that MAT liability paid under New IT Act be treated as final tax liability and would not generate any new MAT credit.
- Currently, there is no provision for set off of MAT credit generated under Old IT Act against liability under normal provisions under the new IT Act; it is proposed that MAT credit generated under Old IT Act would be eligible for setoff under the New IT Act subject to the following:
  - For domestic companies
    - The company is transitioning to concessional tax regime.
    - Utilization of MAT credit under the New IT Act proposed to be capped to 25% of normal tax liability.
    - Unutilized MAT credit is allowed to be carried forward for 15 years as per original timelines under the Old IT Act.
  - For foreign companies
    - Utilization under the New IT Act is capped to the extent of excess liability under normal tax provisions as compared to MAT provisions.
    - Unutilized MAT credit is allowed to be carried forward for 15 years as per original timelines under the Old IT Act.
- Exemption from applicability of MAT provisions for non-residents opting for presumptive taxation is proposed to be extended to such entities operating cruise ships.
- No change in AMT provisions.
- These amendments are proposed to be applicable from 1 April 2026 (tax year 2026-27).

### **Retrospective amendment and clarification of procedural aspects to tax proceedings**

- It is proposed to be clarified under the Old IT Act as well as the New IT Act that the power to issue notice under reassessment provisions shall vest with jurisdictional Assessing Officer and not faceless authorities or units thereunder.
- Presently, CBDT circular provides that any communication not having a DIN (subject to exceptions) shall be treated as invalid and deemed to have never been made; it is proposed to be clarified under the Old IT Act as well as the New IT Act that an assessment shall not be treated as invalid so long that the assessment order has a reference to a DIN but there is a mistake, defect or omission in respect of quoting such DIN therein.
- Presently, Courts have adopted conflicting views on the aspect as to whether DRP proceedings are required to be completed within timelines prescribed under the limitation Section (i.e., Section 153 / 153B of the Old IT Act and Section 286 of the New IT Act) or the timelines under Section 144C governing DRP proceedings shall supersede; it is proposed to be clarified under the Old IT Act as well as the New IT Act that timelines for passing order under limitation section is that for draft order and not final order. Consequently, final order may be passed within timelines prescribed under the DRP provisions.
- Aforesaid provisions have been amended under the Old IT Act on a retrospective basis as relevant to the date of enactment of such provision to clarify the intent of the law and reduce ongoing litigation before the Courts.

### **Non-allowability of INTEREST AS A DEDUCTION AGAINST DIVIDEND INCOME**

- Currently, under the New IT Act, interest expense deduction is restricted to 20% of dividend income, income from specified mutual funds or units of a specified company referred to in Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.
- It is now proposed that no deduction will be allowed for interest expenditure incurred in relation to aforesaid income.
- This amendment will be effective from 1 April 2026 (tax year 2026-27).

### **Removal of ambiguity in case of WHT rate for manpower supply**

- There has been ambiguity on whether payment for manpower supply should be considered as 'payment to contractors' or 'fees for professional and technical services.'
- It is proposed to include manpower supply under the ambit of 'work' so as to cover the same as 'payment to contractors', and hence WHT rate of 1% or 2%, as the case maybe, would apply.
- This amendment will be effective from 1 April 2026 (tax year 2026-27).

### **Extension of ITR due date for non-audit cases**

- Due date for filing of return of income by non audit business cases, partners of non-audit firms and trusts not requiring audit is extended to 31 August following tax year from the existing time limit of 31 July.
- This amendment is applicable from tax year 2025-26.

### **Extended time limit to file revised ITR**

- The prescribed time limit for filing the revised ITR is extended from its existing time limit of nine months to 12 months from the end of relevant tax year with a nominal fee.
- This amendment is applicable from tax year 2025-26.

### **Time limit for passing of Transfer Pricing order**

- For computing the 60-day period for passing transfer pricing order, Courts have ruled that the final date of limitation has to be excluded.
- It is now clarified that the 60-day period shall be computed by including the date of limitation for consistency and to reduce litigation.
- This amendment will take effect retrospectively from 1 June 2007.

## Updated tax return

- At present, filing of an updated return for disclosing additional income in respect of a tax year is not allowed if the updated return is a return of loss, or in case where the assessment or reassessment is pending or has been completed in respect of the relevant tax year.
- The updated return can now be filed in cases where (a) loss is reduced or (b) reassessment notice is issued.
- However, in cases where updated return is filed in response to reassessment notice, taxpayer will be required to pay a further additional tax of 10% in addition to additional tax payable on the aggregate of tax and interest payable on filing such return.
- This amendment will be effective:
  - From 1 March 2026 for updated return in case of reduction of losses; and
  - Retrospectively (in Old IT Act) from 1 March 2026.

## Rationalization of TCS rates w.e.f. 1 April 2026

- Rationalization of TCS rates is proposed as follows:

Nature of receipt	Existing	Proposed
Sale of alcoholic liquor for human consumption	1%	2%
Sale of tendu leaves	5%	2%
Sale of scrap	1%	2%
Sale of minerals, being coal or lignite or iron ore	1%	2%
Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding INR10 lakh	<ul style="list-style-type: none"><li>▪ 5% for purposes of education or medical treatment;</li><li>▪ 20% for purposes other than education or medical treatment</li></ul>	<ul style="list-style-type: none"><li>▪ 2% for purposes of education or medical treatment;</li><li>▪ 20% for purposes other than education or medical treatment</li></ul>
Sale of "overseas tour programme package" including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	<ul style="list-style-type: none"><li>▪ 5% of amount or aggregate of amounts up to INR10 lakh;</li><li>▪ 20% of amount or aggregate of amounts exceeding INR10 lakh</li></ul>	2% without any threshold

## Other rationalization provisions

- Prosecution provisions have been rationalized by reducing the period of imprisonment or levy of fine or both.
- Single composite assessment and penalty, with interest deferred till appellate outcome.
- Penalty for failure to furnish Form 3CEB reduced to graded fee of INR50,000 for delay up to one month and INR100,000 thereafter.

## Indirect tax

### Customs and Central Excise

- Sunset clause for Basic Customs Duty (BCD) exemption on the import of specified goods used in various petroleum operations has been extended from 31 March 2026 to 31 March 2028.
- Sunset-clause for BCD exemption (which was to lapse on 31 March 2026) on import of vessels under CTH 8901 (vessel for transportation) and 8906 (warships) being removed, thereby continuing the exemption.
- The applicability of 5% concessional BCD on import of vessels under CTH 8902 (fishing vessels), 8904 0000 (tugs), 8905 90 (including rigs) has been extended from 31 March 2026 to 31 March 2028.
- The applicability of 5% concessional BCD on machinery and equipment for power or Bio-CNG (Compressed Natural Gas) projects using non-conventional materials has been extended from 31 March 2026 to 31 March 2028.
- The BCD rate is being reduced from 20% to 10% on all dutiable goods, imported for personal use. Further, Social Welfare Surcharge will be levied on all goods imported for personal use. This amendment is effective from 1 April 2026.
- Validity of advance rulings extended from three years to five years, with provision for extension, enhancing certainty for importers and reducing litigation.
- Deferred customs duty payment cycle from 15 days to 30 days for Authorised Economic Operators (AEO) T2/T3.
  - Same duty deferral facility extended to 'eligible manufacturer-importer'
- Baggage regulations rationalized to reduce ambiguity and disputes.
- Current limit of INR10 lakh for courier exports proposed to be removed; details awaited.
- The value of biogas/CBG (Compressed Biogas) and related GST paid when included in blended CNG will be excluded from excise duty valuation effective 2 February 2026.
- The implementation of levy of additional excise duty of INR2 per liter on unblended diesel is being deferred till 31 March 2028.

### GST amendments in pursuance of 56th GST Council meeting pronouncements

- The place of supply of intermediary services to be the location of recipient of service.
- Provision requiring discounts to be pre-agreed and linked to specific invoice to be omitted.
- Discount to be allowed as deduction if GST credit note is issued and corresponding input tax credit is reversed by the recipient.

## Impact analysis

To sustain high growth rate of around 7%, energy security will continue to be one of the major measures, which is evident from the fact that the government has proposed substantial fund allocation for CCUS and other related measures. Further, to provide impetus to oilfield companies in IFSC and provide tax certainty to the GCCs in India, the government has extended tax holiday period and introduced Safe Harbour margins, respectively, which is a welcome move. Other measures like extension of BCD exemption benefit until 31 March 2028 also provide tax certainty and stability with respect to oil and gas operations, though a longer extension was expected. While the government has already adopted measures to simplify the tax regime by transitioning to the new Income Tax Act, 2025, the Budget proposes to notify simplified income tax rules and forms shortly and has further proposed certain measures and reforms including decriminalization/liberalization of certain offences.

# Glossary

AMT - Alternate Minimum tax

APA - Advance Pricing Agreement

BCD - Basic Customs Duty

CBDT - Central Board of Direct Taxes

CESTAT - Customs, Excise and Service Tax Appellate Tribunal

CGST Act - Central Goods and Services Tax Act, 2017

CTH - Customs Tariff Heading

DIN - Document Identification Number

DRP - Dispute Resolution Panel

FB - Finance Bill

GDP - Gross Domestic Product

Gol - Government of India

GST - Goods and Services Tax

IFSC - International Financial Services Centre

IGST - Integrated Goods and Services Tax

IT - Information technology

ITC - Input Tax Credit

ITES - Information Technology Enabled Services

ITR - Income Tax Return

MAT - Minimum Alternate Tax

New IT Act - Income Tax Act 2025

NR - Non-resident

OBU - Offshore Banking Units

Old IT Act - Income Tax Act 1961 read with Income Tax Rules 1962

R&D - Research and Development

TCS - Tax Collected at Source

TP - Transfer Pricing

TPO - Transfer Pricing Officer

WHT - Withholding taxes

UAPA - Unilateral Advance Pricing Agreement



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# Our Offices

## Ahmedabad

22nd Floor, B Wing, Privilon  
Ambli BRT Road, Behind Iskcon Temple  
Off SG Highway, Ahmedabad - 380 059  
Tel: + 91 79 6608 3800

## Gandhinagar

8th Floor, Building No. 14A  
Block 14, Zone 1  
Brigade International Financial Centre  
GIFT City SEZ  
Gandhinagar - 382 355, Gujarat  
Tel: + 91 79 6608 3800

## Bengaluru

12th & 13th Floor  
"UB City", Canberra Block  
No.24 Vittal Malliya Road  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

Ground & 1st Floor  
# 11, 'A' wing  
Divyasree Chambers  
Langford Town  
Bengaluru - 560 025  
Tel: + 91 80 6727 5000

3rd & 4th Floor  
MARKSQUARE  
#61, St. Mark's Road  
Shantala Nagar  
Bengaluru - 560 001  
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A  
Prestige Shantiniketan  
Mahadevapura Post  
Whitefield, Bengaluru - 560 048  
Tel: + 91 80 6727 5000

Ecospace  
1st Floor, Campus 1C  
Ecospace Business Park  
Outer Ring Road,  
Bellandur - Sarjapura Area, Varthur Hobli,  
Bengaluru Urban - 560103

## Bhubaneswar

8th Floor, O-Hub, Tower A  
Chandaka SEZ, Bhubaneswar  
Odisha - 751024  
Tel: + 91 674 274 4490

## Chandigarh

Elante offices, Unit No. B-613 & 614  
6th Floor, Plot No- 178-178A  
Industrial & Business Park, Phase-I  
Chandigarh - 160 002  
Tel: + 91 172 6717800

## Chennai

6th & 7th Floor, A Block,  
Tidel Park, No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100

## Delhi NCR

Aikyam  
Ground Floor  
67, Institutional Area  
Sector 44, Gurugram - 122 003  
Haryana  
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B  
Tower 2, Sector 126  
Gautam Budh Nagar, U.P.  
Noida - 201 304  
Tel: + 91 120 671 7000

## Hyderabad

THE SKYVIEW 10  
18th Floor, "SOUTH LOBBY"  
Survey No 83/1, Raidurgam  
Hyderabad - 500 032  
Tel: + 91 40 6736 2000

THE SKYVIEW 20  
2nd Floor, 201 & 202  
Right Wing, Survey No 83/1  
Raidurgam, Hyderabad - 500 032  
Tel: + 91 40 6736 2000

## Jaipur

9th floor, Jewel of India  
Horizon Tower, JLN Marg  
Opp Jaipur Stock Exchange  
Jaipur, Rajasthan - 302018

## Kochi

9th Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 433 4000

## Kolkata

22 Camac Street  
3rd Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400

6th floor, Sector V,  
Building Omega, Bengal Intelligent  
Park, Salt Lake Electronics  
Complex, Bidhan Nagar  
Kolkata - 700 091  
Tel: + 91 33 6615 3400

## Mumbai

14th Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000

5th Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E)  
Mumbai - 400 063  
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301  
Building No.1, Mindspace-Gigaplex  
IT Park, MIDC, Plot No. IT-5  
Airoli Knowledge Park  
Airoli West, Navi Mumbai - 400 708  
Tel: + 91 22 6192 0003

18th Floor, Altimus  
Pandurang Budhkar Marg  
Worli, Mumbai - 400 018  
Tel: + 91 22 6192 0503

## Pune

C-401, 4th Floor  
Panchshil Tech Park, Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 4912 6000

10th Floor, Smartworks  
M-Agile, Pan Card Club Road  
Baner, Pune - 411 045  
Tel: + 91 20 4912 6800

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