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Tax Alert - Key announcements
of Union Budget 2026



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Union BUDGET 2026-27

Power & Utilities sector | Budget 2026 cuts duties for cheaper, cleaner energy

India's energy agenda underscores its commitment to affordable, cleaner power through tariff reforms and green technologies



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The Union Budget presents a positive and forward-looking outlook for the power & utilities sector, addressing critical industry priorities such as cost competitiveness, supply-chain resilience, and the scaling of clean energy. The emphasis on tariff rationalization and infrastructure readiness underscores the government's commitment to ensuring affordable, reliable and sustainable power.

A notable highlight is the reduction in Basic Customs Duty on essential inputs like batteries, key minerals and power electronics, which is anticipated to enhance project economics across renewables, energy storage, Electric Vehicle (EV) charging infrastructure and grid modernization. The ongoing focus on domestic manufacturing and critical mineral security further solidifies the foundation for a resilient clean energy ecosystem.

These initiatives are expected to improve project viability, accelerate deployment timelines and provide cost certainty for utilities, developers and manufacturers. However, sustained progress will necessitate parallel investments in transmission capacity, grid flexibility and effective coordination between central and state authorities.

Timely implementation and clear regulations will be key for stakeholders going forward. Clients should reassess cost structures, refine sourcing strategies and prioritize investments in storage, grid technologies and scalable clean power assets to capitalize on the opportunities presented by this Budget and position themselves for long-term growth.

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Corporate Tax:

- New Income-tax Act, 2025 will be effective from 01 April 2026. Simplified rules and redesigned return forms will be notified shortly.
- **Tax rate for units in International Financial Services Centre (IFSC) on income earned after tax holiday period**
 - Eligible business income of units of IFSC will now be taxed at 15% instead of the 22%/30% rate applicable to income earned after the tax holiday period. This is applicable from tax year 2026-27.
- **Changes proposed in respect of Minimum Alternate Tax (MAT)**
 - MAT proposed to be reduced from existing 15% to 14%.
 - MAT proposed to be inapplicable to all non-residents (NRs) opting for presumptive taxation, including NRs engaged in (a) operating cruise ships, or (b) providing services or technology in India to resident companies engaged in electronics manufacturing under a notified scheme.
 - For domestic companies, it is proposed that:
 - MAT would be a final tax, and no new MAT credit to be allowed
 - No set off of MAT credit if continuing in old regime
- **Set off of MAT credit if transitioning to new regime during or after the tax year 2026-27, as follows:**
 - Set off restricted to 25% of normal tax liability
 - Balance credit can be carried forward to subsequent tax years (subject to existing limit of 15 years) and set off as above.
- **Buy-back Tax**
 - 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).
- **Expense deduction from dividend and income from mutual funds**
 - As per the existing provisions of ITA, taxpayers are allowed deduction of interest expenditure up to 20% of dividend income and income from units of mutual fund while computing income under the head 'Income from other sources'. Such deduction shall not be allowed from tax year 2026-27 onwards.
- **TDS**
 - The definition of "work" for payment to resident is amended to clarify that payment for supply of manpower would qualify as payment for "work" and consequently it will now be subject to deduction of tax at the rate of 1% is paid to an individual or HUF and 2% in other case. This amendment is effective from 1 April 2026.
- **Exempt incomes**
 - In order to provide tax certainty to foreign companies supplying capital equipment to contract manufacturers of electronic goods, any income arising in India to foreign company providing capital goods, equipment or tools to the resident contract manufacturers located in custom bonded area will now be exempt from tax in India. The exemption will be subject to certain conditions and will be available upto tax year 2030-31.

- **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 for tax year 2025-26 and onwards
- **Updated 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 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 case the updated return is filed in response to reassessment notice, the 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.
- **Extended time limit to file revised income tax return**
 - The prescribed time limit for filing of the revised income tax return is extended from its existing time limit of nine months to 12 months from the end of the relevant tax year with a nominal fee. This will apply from tax year 2025-26 onwards.
- **Rationalization of TCS rates w.e.f. 1 April 2026**

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 (LRS) for purposes of education or medical treatment	5%	2%
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"> ▪ 5% of amount or aggregate of amounts up to INR10 lakh; ▪ 20% of amount or aggregate of amounts exceeding INR10 lakh 	2% without any threshold

▪ Stay of demand

- At present, a taxpayer can obtain stay of demand on an order which is in appeal by paying 20% of the amount payable under the Act (including amount of tax, interest, fee, penalty, or any other sum). The stay can now be availed by paying only 10% of the amount of tax.

▪ Rationalization of penalty and prosecution

- Integration of assessment and penalty proceedings into a single order reduces prolonged litigation cost. Further, it is also proposed to reduce the quantum of prepayment for stay of demand from 20% to 10% of the core tax demand.
- Decriminalization of minor and technical defaults (e.g., non-production of documents, TDS issues in kind) and conversion of penalties for certain defaults into fees significantly improves Ease of Doing Business.

▪ Other Budget announcements

- As part of the Budget speech, the Finance Minister has announced that Income Computation and Disclosure Standards (ICDS) will be repealed w.e.f. 1 April 2027 and a joint committee consisting of Ministry of Corporate Affairs and Central Board of Direct Taxes (CBDT) will be formed to integrate ICDS and the Indian Accounting Standards.

Indirect Tax:

Changes in GST

S. No.	Particulars	Amendment
1	Amendment in Section 13(8)(b) of the IGST Act, 2017 i.e. Place of supply of intermediary services where location of supplier or location of recipient is outside India (Effective upon enactment of Finance Bill, 2026)	Section 13(8)(b) of the IGST Act, 2017 is omitted so as to provide that the place of supply for "intermediary services" will be determined as per the default provision under section 13(2) of the IGST Act.
2	Amendment in Section 15(3) of the CGST Act, 2017 i.e. Value of Taxable Supply (Effective from the date notified in Official Gazette)	Section 15(3)(b) of CGST Act, 2017 is being amended to exclude the post-sale discounts from taxable value. Post-sale discounts can now be excluded from taxable value even without prior agreement, subject to: <ul style="list-style-type: none"> ▪ Supplier issuing a credit note, and ▪ Recipient reversing proportionate ITC in line with Section 34 of CGST Act, 2017.
3	Amendment in Section 34(1) of the CGST Act, 2017 i.e. Credit Notes (Effective from the date notified in Official Gazette)	Section 34(1) of the CGST Act, 2017 is expanded to allow credit notes to be issued not only when goods or services are returned or deficient, but also where a "discount referred to in Section 15(3)(b) of CGST Act, 2017 is given". This aligns Section 34 of the CGST Act, 2017 with the revised Section 15 of the CGST Act, 2017, recognizing post-supply discounts as a basis for issuing credit notes.
4	Amendment in Section 54 of the CGST Act, 2017 i.e. Refunds (Effective from the date notified in Official Gazette)	Section 54 of the CGST Act, 2017 has been amended to: <ul style="list-style-type: none"> ▪ Section 54(6): Extend the provisions of provisional refund to refunds arising out of inverted duty structure; and ▪ Section 54(14): Remove the threshold limit (i.e. less than one thousand rupees) for sanction of refund claims in case of goods exported out of India with payment of tax.
5	Amendment in Section 101A(1A) of the CGST Act, 2017 i.e. Orders of Appellate Authority (Effective from 1 April 2026)	Sub-section (1A) is being inserted in Section 101A of CGST Act, 2017 to provide that the Central Government may, pending the constitution of the National Appellate Authority, by notification empower an existing Authority, for hearing appeals under section 101B of the CGST Act, 2017. The provisions of sub-sections (2) to (13) shall not be applicable where a Tribunal has been so empowered under sub-section (1A). An explanation to sub - section (1A) is also being inserted to clarify that the existing Authority also includes a tribunal.

Changes in Custom

Non-tariff changes - Changes in Customs Act, 1962

- The central government has provided that when an assessee pays duty short-levied or short-paid along with penalty equal to 15% of duty even by reason of collusion or any wilful misstatement or suppression of facts, then such penalty shall be deemed to be a charge for 'non-payment of duty'. This change is expected to encourage timely settlement of litigations, as payment of duty under this framework would no longer carry an allegation of mala fide intent.
- The central government has extended the validity of advance ruling given by Customs Authority for Advance Rulings from three years to five years or till there is a change in law or facts. Also, any advance ruling in force on the date on which the Finance Bill, 2026 receives the assent of the President, the Customs Authority for Advance Rulings shall, upon a request by the applicant, extend the validity for five years from the date of the ruling.
- The central government has extended the facility of deferred payment of import duty to 'manufacturer importer' till 31 March 2028. Further, the facility of deferred payment of duty in relation to Bill of Entry returned for payment from first day to the last day of any month other than March, the duty shall be paid by the first day of the following month.

(These changes will come into effect from the date of assent of the Finance Bill, 2026 by President of India)

Changes in Customs rules and regulations

- The central government has extended the facility of deferred payment of import duty to 'manufacturer importer' till 31 March 2028. Further, the facility of deferred payment of duty in relation to Bill of Entry returned for payment from first day to the last day of any month other than March, the duty shall be paid by the first day of the following month.

(These changes will come into effect from 1 February 2026)

- A Master Circular consolidating the statutory provisions along with applicable instructions from existing circulars/ instructions and to provide operational clarity on key aspects of baggage rules and regulations is being issued.

Tariff changes

- Conditional exemptions are proposed to lapse on 31 March 2026 for permanent magnets for manufacture of synchronous generators above 500KW for use in wind operated electricity generators.
- The applicable BCD rates on coal, briquettes, ovoids, etc., and petroleum crude, falling under this chapter 2701, 2702, 2703, are being incorporated in the First Schedule w.e.f. from 1 May 2026. Accordingly, the relevant exemption entries shall be omitted w.e.f. 1 May 2026. There is no change in the applicable rate of duty.
- **Exemptions / concessional rates have been extended up to 31 March 2028, for the following:**
 - Electrical energy supplied to Domestic Tariff Area (DTA) by power plants of 1000MW or above, and granted formal approval for setting up in SEZ prior to 19 July 2012
 - Electrical energy supplied to DTA from power plants of less than 1000MW, and granted formal approval for setting up in SEZ prior to 19 July 2012

Tariff changes (contd.)

- Parts, components and accessories except Lithium-ion cell and Printed Circuit Board Assembly (PCBA) for use in manufacture of Lithium-ion battery and battery pack
- Inputs, parts or sub-parts for use in the manufacturing of PCBA of Lithium-ion battery and battery pack
- Parts, sub-parts, inputs or raw material for use in manufacture of Lithium-ion cells
- Lithium-ion cell for use in manufacture of battery or battery pack other than for cellular phone or EV i.e. including BESS
- All items of machinery, and auxiliary equipment required for initial setting up of a project for generation of power or generation of compressed biogas (Bio-CNG) using non-conventional materials
- All items of machinery, and auxiliary equipment for setting up of fuel cell-based system for generation of power or for demonstration purposes or balance of systems operating on biogas or bio-methane or by-product hydrogen
- Specified goods for use in the manufacture of sheets or backsheet, which are used in the manufacture of solar photovoltaic cells or modules
- Copper wire or refined copper for manufacture of photovoltaic ribbon for solar photovoltaic cell or modules
- Forged steel rings for manufacture of special bearings for use in wind operated electricity generators.
- Goods for manufacture or the maintenance of wind operated electricity generator components.
- **Other tariff changes made effective from 2 February 2026 are reproduced hereunder:**
 - Exemption with respect to custom duty for capital goods imported with respect to Lithium Ion Cell for use in the manufacture of Battery Energy Storage System (BESS). The same was earlier available only for capital goods used in manufacture of Lithium-ion cells meant for mobility application.
 - BCD rate on Sodium antimonate, falling under tariff item 2841 90 00, for use in manufacture of solar glass is being decreased from 7.5% to Nil.
 - Concessional BCD rate of Nil is prescribed on specified goods for use in the manufacture of EVA (Ethylene Vinyl Acetate) sheets or backsheet, which are used in the manufacture of solar photovoltaic cells or modules. The entry has been modified and exemption now applies to specified goods for use in the manufacture of sheets/encapsulants of EVA (Ethylene Vinyl Acetate), PoE (Polyolefin Elastomer) or combinations thereof or backsheet, which are used in the manufacture of solar photovoltaic cells or modules falling under CTH 2915, 2933, 3208, 3506, 3815 , 3901 or 3920.
 - The exemption for goods required for setting up a Nuclear Power Project (under Chapter 9801) has been expanded by removing the earlier capacity threshold of 440 MW or above. Further, the validity of the exemption has been extended from 30 September 2027 to 30 September 2035.
 - BCD rate on all goods falling under tariff item 8401 30 00 [Fuel elements (cartridges), non-irradiated] for generation of nuclear power is being decreased from 7.5% to Nil.
 - BCD rate on Control and Protection Absorber Rods and Burnable Absorber Rods falling under tariff item 8401 40 00 for generation of nuclear power is being decreased from 7.5% to Nil.

Key policies

Clean tech and industrial decarbonization:

- An INR20,000 crore Carbon Capture, Utilization, and Storage (CCUS) roadmap has been announced over five years, covering power, steel, cement, refineries and chemicals. CCUS is explicitly positioned as a national-scale decarbonization tool, signaling support for coal-based generation with a decarbonization overlay.

Electricity and energy storage:

- Customs duty exemptions extended for battery energy storage manufacturing, key solar inputs and critical mineral processing. This reduces costs and strengthens domestic capacity across the clean energy value chain, enhancing supply-chain resilience and accelerating deployment of clean technologies.
- Over the years, Real Estate Investment Trusts (REITs) have emerged as a successful instrument for asset monetisation. The Budget proposes to accelerate recycling of significant real estate assets of Central Public Sector Enterprises (CPSEs) through dedicated REITs, indirectly supporting Distribution Companies' (DISCOMs) financial health and enabling further investment in electricity infrastructure.

Nuclear energy:

- Customs duty exemptions for all nuclear power project goods extended until 2035, regardless of plant capacity, reinforcing nuclear power as a core component of India's clean and reliable energy mix.

EV and clean tech manufacturing:

- Duty exemptions for capital goods in lithium-ion battery manufacturing, solar glass production, nuclear power projects and critical mineral processing continue to strengthen domestic manufacturing capabilities, reduce import dependence, and support India's clean energy transition.

Restructuring of financing corporations:

- The Budget delivers a subtle but impactful financial reform for the sector through the restructuring of Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) which may promote infrastructure and energy financing at scale - including longer-tenure credit for bigger projects. At the same time, the announcement of Infrastructure Risk Guarantee Fund may promote private capital across power generation, transmission, distribution, and storage, focusing on financial de-risking rather than direct subsidies. This may accelerate longer longer-tenure capital in India's energy transition while supporting sectoral investment efficiency.

Impact analysis

The Union Budget 2026 marks a significant step in India's energy transition, combining pragmatic decarbonization with strategic domestic capacity building. The introduction of CCUS roadmap over five years positions it as a national-scale decarbonization tool. This is among the government's first major financial commitments to industrial carbon abatement, signaling that while coal-based generation will continue, it will increasingly operate under a decarbonization overlay. The roadmap is likely to catalyse technology deployment, private sector participation and R&D investment, creating new avenues for emission reduction and carbon management projects across energy-intensive industries.

The Budget further reinforces India's commitment to a clean and reliable energy mix by extending customs duty exemptions for nuclear power projects until 2035, regardless of plant capacity. This measure not only lowers the cost of nuclear capacity expansion but also provides long-term regulatory certainty, enabling more robust project planning and investment. Coupled with duty exemptions for lithium-ion battery manufacturing, solar glass production and critical mineral processing, the policy framework strengthens domestic manufacturing capabilities, reduces import dependency, and promotes supply chain resilience across the energy transition value chain. By lowering capital costs and incentivizing local production, these measures are likely to accelerate clean energy deployment and local technology adoption, supporting the broader objectives of self-reliance and sustainability.

In the context of the current market and policy environment, these initiatives reflect a strategic shift from merely deploying clean energy to localising the technologies and materials that underpin it, aligning with global trends toward energy security and climate responsibility. For stakeholders, timely implementation and regulatory clarity will be critical to fully leverage these opportunities. We may see investors, manufacturers, and energy companies exploring partnerships, technology adoption, and capacity expansion, while government bodies need to ensure smooth execution and oversight to translate these policy commitments into tangible outcomes.

Overall, the Budget provides a robust and forward-looking platform for India's power and industrial sectors, balancing decarbonization, energy security and domestic capability building. It encourages innovation, supports sustainable growth and strengthens India's position as a global player in clean energy technologies and industrial carbon management, offering stakeholders a clear signal that the country is committed to a resilient, low-carbon energy future.

Glossary

CBDT - Central Board of Direct Taxes

EV - Electric Vehicle

MAT - Minimum Alternate Tax

NR - Non-resident

BCD - Basic Customs Duty

CGST Act - Central Goods and Services Tax Act, 2017

CCUS - Carbon Capture, Utilization, and Storage

CPSE - Central Public Sector Enterprises

DISCOM - Distribution Companies

REIT - Real Estate Investment Trusts

GST - Goods and Services Tax

IGST - Integrated Goods and Services Tax

ITC - Input Tax Credit



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