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Tax Alert - Key announcements
of Union Budget 2026



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Union BUDGET 2026-27

Transformative Budget measures for a stronger start-up landscape

Policy and tax reforms relevant for the start-up sector



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The Union Budget 2026 sends a positive signal to India's start-up ecosystem by reinforcing a capex-led, reform-driven growth strategy under the vision of Viksit Bharat. The government's focus on Ease of Doing Business, technology adoption and access to capital creates an enabling environment for innovation-led enterprises.

Start-ups are likely to benefit from the strong push on manufacturing; electronics; semiconductors; biopharma; Animation, Visual Effects, Gaming, Comics (AVGC); AI and deep-tech; along with the targeted measures to scale MSMEs and emerging enterprises. The proposed SME Growth Fund, Self Reliant India Fund, expansion of Trade Receivables Discounting System (TReDS) and improved access to risk capital are expected to ease funding constraints for growth-stage start-ups. Further, professional organizations (viz., ICAI, ICSI and ICMAI) are empowered to develop 'Corporate Mitras' for Ease of Doing Business by MSMEs.

Further, policy initiatives around data centers, cloud services, fintech infrastructure, education-to-employment pathways, and services exports open new opportunities for tech-enabled and platform-based start-ups.

#EYonBudget2026

How does the Budget impact the start-up sector?

- New Income-tax Act, 2025 will be effective from 01 April 2026.
- Simplified rules and redesigned return forms will be notified shortly.
- No change in the corporate income tax rates. However, for companies which are under the old corporate tax regime (claiming specified deduction and exemptions such as SEZ tax holiday, additional depreciation, etc.), the MAT tax rate is reduced from 15% to 14%. Further, no MAT credit is allowed from 01 April 2026 if continued under old corporate tax regime. Where the company switches to the new corporate tax regime (i.e., 22% without claiming any deduction) from FY 2026-27, set off of brought forward MAT credit shall be limited to 25% of the tax payable from FY 2026-27. This essentially facilitates smoother transition for corporates from old corporate tax regime to the new corporate tax regime.
- Until now, buy-back of shares was taxable as 'dividend'. With effect from 01 April 2026, buy-back of shares is taxable as 'capital gains'. The tax rate on capital gains shall be applicable for non-promoter shareholders. For promoter shareholders, additional tax is applicable. The tax rate for corporate promoters the tax rate is 22% and for non-corporate promoters the same is 30%.
- Till now, taxpayers could apply for nil or lower withholding to the Assessing Officer and this process was time consuming. The process for application is expected to be automated going forward.
- The return filing due date for non-corporate assessees carrying on business or profession and who are not subject to audit and partners of firm which is not subject to audit is extended to 31 August of the relevant tax year from 31 July.
- The revised return filing due date for tax payers has been extended to 31 March from the end of the relevant tax year with an additional fee. Further, updated return facility has been extended for companies furnishing reduced losses.
- Safe Harbour Transfer Pricing margins for IT/ITES/KPO and contract R&D services relating to software development is proposed to be reduced to 15.5%.

Highlights



**INR10,000
crore**

SME Growth Fund



**INR2,000
crore**

Self Reliant
India Fund

- 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, Tax Deducted at Source (TDS) issues in kind) and conversion of penalties for certain defaults into fees significantly improve Ease of Doing Business.
- Foreign companies procuring services from Indian data centers and earning income in India through the same are exempt from income tax up to 2027. This reduces the tax exposure of foreign companies providing data center services through Indian re-seller companies.
- Exemption for non-residents visiting India for rendering services in India under a specified scheme (details yet to be notified) is announced.
- A comprehensive review of Foreign Exchange Management (Non-debt Instrument) Rules ('FEMA NDI Rules' or 'FDI Rules') announced to create a more contemporary user friendly framework for foreign investments, consistent with India's evolving economic priorities.
- To support aspirations of India's small businesses, artisans and start-ups to access global markets through e-commerce, complete removal of the current value cap of INR10 lakh per consignment on courier exports has been announced.

Impact analysis

Overall, the Union Budget 2026 strengthens the operating environment for start-ups through improved tax certainty, simplified compliance, reduced litigation risk and a strong push on technology-led growth. Measures such as Safe Harbour rationalization for IT services, eased penalties and improved cross-border tax clarity are positive for scaling and globally oriented start-ups. However, some long-standing expectations of the start-up ecosystem, such as rationalization of ESOP taxation to the point of ultimate sale, expansion of the start-up definition and eligibility thresholds to reflect longer innovation and gestation cycles, remain unaddressed.

Glossary

CBDT - Central Board of Direct Taxes

EGR - Electronic Gold Receipts

FB - Finance Bill

MAT - Minimum Alternate Tax

MSME - Micro, Small and Medium Enterprise

MSME Act- Micro, Small and Medium Enterprise Development Act 2006

NR - Non-resident

ITL - Income Tax Act 1961 read with Income Tax Rules 1962

PE - Permanent Establishment

WHT - Withholding taxes

AIDC - Agriculture Infrastructure and Development Cess

BCD - Basic Customs Duty

CESTAT - Customs, Excise and Service Tax Appellate Tribunal

CGST Act - Central Goods and Services Tax Act, 2017

GST - Goods and Services Tax

IGST - Integrated Goods and Services Tax

ITC - Input Tax Credit

SWS - Social Welfare Surcharge

APA - Advance Pricing Agreement

FRBM - Fiscal Responsibility and Budget Management

Gol - Government of India

GST - Goods and Services Tax

GTR - Gross tax revenues

IPD - Implicit price deflator

CIT(A) - Commissioner of Income Tax (Appeals)

SDT - Specified Domestic Transaction

TP - Transfer Pricing

TPO - Transfer Pricing Officer



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