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Tax Alert - Key announcements  
of Union Budget 2026



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# Union BUDGET 2026-27

## Budget 2026: Catalyzing India's tech prowess

### Technology sector: Key policy and tax highlights



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India's technology sector continues to be a cornerstone of economic growth, export competitiveness, and innovation-led transformation. As the economy transitions into a more digitally intensive and knowledge driven era, India's technology sector has undergone a significant transformation evolving from a services-led growth engine to a strategic enabler of digital governance, enterprise transformation and innovation driven economic growth becoming a foundational pillar of India's economic architecture.

As one of the world's leading hubs for IT services, digital platforms, GCCs and emerging technologies, India is well positioned to capitalize on the next phase of global digital and AI-led expansion. Over successive years, policy initiatives by the Government have steadily moved from enabling digitization to fostering data driven decision making, automation and intelligent systems across sectors.

A comprehensive and business-friendly Safe Harbour TP regime, fast tracking APA conclusions, providing tax holiday for foreign cloud service providers utilizing India data centers and increased outlay supporting electronic component manufacturing provides the much-needed boost and long-term certainty to the Technology Sector. Building on the policy foundations laid in earlier Budgets, the Union Budget 2026 reinforces the Government's focus on gaining the trust of the technology sector.

#EYonBudget2026

# How does the Budget impact Technology sector?

- New Income-tax Act, 2025, reiterated to be effective from 1 April 2026. Relevant rules and forms to be notified shortly.
- TP provisions in relation to IT services:
  - IT services to be clubbed under a single category with a Safe Harbour margin of 15.5%.
  - Increasing the threshold of Safe Harbour from INR300 crore to INR2,000 crore.
  - Approval of Safe Harbour shall be through an automated rule-driven process with a validity of up to five years.
  - Fast track process for unilateral APA is introduced with a timeline of two years to conclude, with a possible extension of six months on the taxpayer's request.
  - Overseas AEs allowed to file modified returns in accordance with APA terms.
- Exemptions for foreign companies for cloud services/ toll manufacturers:
  - Provision of tax holiday until 2047 to foreign companies providing cloud services through India-based data centers. Related entities providing data center services from India to get a Safe Harbour of 15% on cost.
  - Provision of a tax holiday to any foreign company providing capital goods, equipment and tooling to a toll manufacturer operating in a bonded zone and engaged in the manufacture of electronic goods, for a period of five tax years beginning on 1 April 2026.
  - Provision of a tax holiday to any foreign company providing capital goods, equipment and tooling to toll manufacturer in a bonded zone engaged in manufacturing of electronic goods for a period of five tax years beginning on 1 April 2026.
- Incentives for units in IFSC:
  - Tax holiday period for units in IFSC has been extended from 10 to 20 consecutive years.
  - After the expiry of the tax holiday period, eligible business income of units will be taxed at 15%.
- MAT provisions:
  - MAT rate has been reduced from 15% to 14%.
  - Set off of brought forward MAT credit as on 1 April 2026 to be allowed in the new regime up to 25% of the tax liability.
- Buy-back of shares:
  - Consideration received shall be charged under the head 'capital gains', instead of 'dividend income'.
  - Effective tax liability will be 22% in the case of domestic companies and 30% in the case of non-domestic companies.
- Common order for assessment and penalty / reducing prepayment requirements:
  - Integration of assessment and penalty proceedings by way of a common order.
  - Pre-payment requirement for obtaining a stay of demand is reduced from 20% to 10% and will be computed on core tax demand.

## Highlights



**Rationalizing Safe Harbour margins for IT Sector- 15.5%**

**Tax holiday for foreign cloud service providers utilizing India data centres**

**MAT rate reduction and relief for brought forward credit**



**Reduction in tax payable for stay of demand to 10%**

- Widening the scope for filing updated returns:
  - Updated return can now be filed even after initiation of reassessment proceedings, by paying 10% additional tax.
  - Reduction of the loss amount in the updated return is allowed.
- Rationalization of penalty and prosecution provisions:
  - Penalties for certain technical defaults such as failure to get accounts audited, non-furnishing of TP audit report and default in furnishing statement for financial transactions, are now being converted to fee.
  - Certain technical defaults (failure to produce books of accounts, failure to deduct taxes on perquisites/benefits in kind) have now been decriminalized.
  - Maximum imprisonment reduced to two years and power conferred with courts to convert imprisonment to fine.
  - Framework for immunity from penalty and prosecution in cases of under-reporting is extended to misreporting, subject to payment of 100% tax as additional income tax.
  - Immunity from prosecution in case of non-disclosure of non-immovable foreign assets with an aggregate value less than INR20 lakh is provided. The amendment will take effect retrospectively from 1 October 2024.
- Streamlining Accounting Standards:
  - Integration of ICDS into IND-AS proposed, with consequent removal of ICDS provisions and its disclosures from tax year 2027-28.
- Foreign Assets Disclosure: A one-time six-month disclosure window will allow small taxpayers to regularize overseas assets or income disclosure. This will be introduced for individuals:
  - Category A - who did not disclose their overseas income or assets.
  - Category B - who disclosed their overseas income and paid applicable tax but have not declared overseas assets.
  - For Category A, the limit of undisclosed income and assets is proposed to be up to INR1 crore. Amount payable is dependent on whether there is undisclosed income or asset or both (i) 30% of value of the undisclosed asset as on 31 March 2026, (ii) 30% of undisclosed income, and an amount equal to 100% of the additional tax as determined in (i) and (ii). Immunity would be granted from prosecution.
  - For Category B, where the value of the undisclosed asset is up to INR5 crore, a fee of INR1 lakh would be required to be paid, and immunity would be granted from both penalty and prosecution.
  - Immunity for non-disclosure of foreign assets: Immunity from prosecution for non-disclosure of non-immovable foreign assets valued below INR20 lakh with retrospective effect from 1 October 2024, providing relief to taxpayers who may have inadvertently missed reporting such assets.
- Other key amendments/ clarifications:
  - Assessment will not be treated as invalid merely due to a mistake, defect or omission in quoting the DIN. The amendment will take effect retrospectively from 1 October 2019.
  - Clarification provided that the definition of an 'Assessing Officer' for the purposes of issuing a notice of reassessment shall mean an Assessing Officer other than the National Faceless Assessment Centre or any of its assessment units. The amendment will take effect retrospectively from 1 April 2021.
  - A draft assessment order under the DRP route may now be issued at any time within the prescribed limitation period. Once issued, the assessment will continue under the DRP process, with completion timelines governed by DRP provisions rather than general limitation rules. The amendment will take effect retrospectively from 1 April 2009.
  - Clarification on the manner of computation of 60 days for the TPO to pass the TP Order for a tax year. The amendment will take effect retrospectively from 1 June 2007.
  - Supply of manpower to be categorized as contractual payments and corresponding TDS rates of 1%/ 2% shall be applicable.
  - Time limit for revising the income tax return has been extended from 31 December to 31 March, with levy of a minimal fee.

## Highlights

### Indirect Tax

- **Customs**
  - **Electronics and IT industry:**
    - **BCD exemption** for capital goods used in the manufacture of Lithium Ion Cell which are used in the manufacture of Battery of 'Battery Energy Storage Systems (BESS)' from 02 February 2026.
    - **BCD exemption** on molds, tools and dies, falling under specified chapters, for manufacture of parts of electronic components or electronic equipment extended until **31 March 2028**.
    - **Extension of exemptions/concessional duty rates until 31 March 2028** on:
      - Open cells and certain specified goods for manufacture of LCD and LED TV panels.
      - Inputs, parts or sub-parts for manufacture of lithium-ion cells, batteries and battery packs.
      - Inputs, parts or sub-parts for manufacture of PCBA of lithium-ion batteries and battery packs.
  - **Semiconductor industry:**
    - **Extension of BCD exemptions** on machinery, electrical equipment, instruments, and parts (excluding populated PCBs) used for fabrication of semiconductor wafer; and for assembly, testing, marking, and packaging of semiconductor chips, until **31 March 2028**.
  - **Others:**
    - Exemption of BCD on specified rare earth metals (scandium and yttrium).
- **Customs process simplification:**
  - Deferred Payment of Import Duty Rules, 2016 being amended to allow monthly duty payment in place of existing 15 days for notified importers. Benefit of deferred duty payment to also be extended to 'eligible manufacturer importer' till 31 March 2028.
  - Introduction of automatic goods registration and auto-let export orders for eligible importers/ exporters.
  - Owner of any warehoused goods will be allowed to remove such goods from one warehouse to another without requiring permission from the proper officer, subject to prescribed conditions.
  - One-time facilitative measure for eligible manufacturing units in an SEZ to sell goods in the DTA, subject to conditions.



**INR 40,000  
crore**

Increase in  
budgetary outlay for  
ECMS

**India  
Semiconductor  
Mission 2.0**

To boost semiconductor self-reliance through domestic equipment and materials, full-stack Indian IP, stronger supply chains, and industry-led R&D and skilling

**Extension of BCD  
exemptions/  
concessions for  
electronics and IT  
industry up to 31  
March 2028**



**2  
years**

## Indirect Tax (contd.)

- GST
  - Supplier-based place of supply rules for 'intermediary services' proposed to be removed. Place of supply to be determined based on the recipient's location.
  - Provision requiring discounts to be pre-agreed and linked to specific invoices to be omitted.
  - Discount to be allowed as deduction if the GST credit note is issued and corresponding input tax credit is reversed by the recipient.
- Key policy announcements:
  - Building on the rapid growth of the technology sector, several steps are proposed to support new technologies such as:
    - Increase the outlay under the Electronic Component Manufacturing Scheme from INR22,219 crore to INR40,000 crore.
    - To produce equipment and materials, design full-stack Indian IP and fortify supply chains, Indian Semiconductor Mission 2.0 will be launched.
  - Exchange control regulations for foreign investment in India is proposed to be reviewed to align with India's evolving economic priorities.

## Impact analysis

The amendments and proposals announced in the Union Budget 2026 are expected to play a pivotal role in shaping the technology sector's growth and contribution towards "Viksit Bharat".

Recognizing intermediary services as exports of services enhances the competitiveness of Indian GCCs by enabling them to broaden the range of offerings delivered from India.

The higher ECMS allocation and ISM 2.0 push will further accelerate semiconductor self-reliance by bolstering domestic equipment and materials capabilities, fostering Indian IP creation, and deepening supply-chain and R&D preparedness.

Overall, the policy announcements and the tax amendments proposed in Budget 2026 will strengthen India's positioning as a trusted global technology hub.

# Glossary

AE- Associated Enterprise

AI - Artificial Intelligence

APA - Advance Pricing Agreement

BCD - Basic Customs Duty

CBDT - Central Board of Direct Taxes

CGST Act - Central Goods and Services Tax Act, 2017

DIN - Document Identification Number

DRP - Dispute Resolution Panel

DTA - Domestic Tariff Area

ECMS - Electronic Component Manufacturing Scheme

GCC - Global Capability Centres

GST - Goods and Services Tax

ICDS - Income Computation and Disclosure Standards

IFSC - International Financial Services Centre

IGST - Integrated Goods and Services Tax

IND-AS - Indian Accounting Standards

IT/ ITeS - Information Technology/ Information Technology Enabled Services

IP - Intellectual Property

ISM - Indian Semiconductor Mission

MAT - Minimum Alternate Tax

PCBA - Printed Circuit Board Assembly

R&D - Research and Development

SEZ - Special Economic Zone

TCS - Tax Collected at Source

TDS - Tax Deducted at Source

TP - Transfer Pricing

TPO - Transfer Pricing Officer



For details on other sectors and solutions visit our website [Union Budget 2026](#)

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