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Tax Alert - Key announcements  
of Union Budget 2026



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# Union BUDGET 2026-27

## Telecom | The engine of India's digital transformation

Budget 2026 accelerates India's telecom evolution toward advanced, inclusive and future-ready digital networks



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India's telecom sector continues to anchor the country's digital transformation. Rapid 5G deployment and deeper connectivity in rural and underserved regions have positioned telecom as a key enabler of economic and social inclusion. The Government's sustained focus on initiatives such as BharatNet, Digital Bharat Nidhi, 100 5G Labs and 6G research reflects a clear vision of *Samaveshit*, *Viksit*, *Tvarit* and *Surakshit* digital ecosystem.

The DoT's enhanced outlay of INR73,990 crore for 2026-27, covering USOF backed infrastructure expansion and BharatNet, signals strong policy continuity. The expansion of the India Semiconductor Mission and Electronics Components Manufacturing Scheme shall strengthen domestic manufacturing, boost supply chain resilience and drive growth of India's telecom ecosystem. Long-term income-tax exemptions for specified data center services till 31 March 2047 further incentivize investment and support scalable digital infrastructure. Through initiatives such as the AI Mission, National Quantum Mission, R&D and Innovation Fund, the Government is accelerating adoption of next-generation technologies, with telecom networks evolving from mere connectivity enablers into foundational platforms for an inclusive, technology-driven economy.

Overall, the Budget 2026 reinforces India's telecom ecosystem, promoting infrastructure development, self-reliance and next-generation digital services. While statutory levies and GST-related challenges remain, fiscal incentives, network expansion and technology-led initiatives set the stage for sustained growth, innovation and new opportunities across India's digital economy.

#EYonBudget2026

# How does the Budget impact Telecom sector?

- The Budget provides strong policy and fiscal support through continued investment in rural broadband and PSU-led network expansion, coupled with enhanced incentives for domestic manufacturing and next-generation digital infrastructure.

## Key amendments

### Policy updates:

- India Semiconductor Mission 2.0 to be launched to produce equipment and materials, design full-stack Indian IP and fortify supply chains.
- Enhanced INR40,000 crore allocation strengthens momentum in the Electronics Components Manufacturing Scheme.

### Direct Tax:

- In order to attract investment in data center and promote artificial intelligence data center framework in India, long-term exemption to be provided to a foreign company on income from data center services from a specified data center, up to 31 March 2047. Where services are provided to India users, it shall be routed through an Indian reseller entity for claiming such exemption.
- Tax exemption to be extended to foreign companies supplying capital goods, equipment or tooling to a contract manufacturer in custom bonded area, up to tax year 2030-31.
- Tax holiday period for IFSC units to be increased to 20 years. Business income in non-tax holiday period to be taxed at 15%.
- Buy-back proceeds to be taxed as capital gains, not as dividend income. Promoters to pay an additional income-tax on buy-back.
- Joint Committee of MCA and CBDT to be formed to integrate ICDS into Ind AS. Separate ICDS based accounting requirements to be discontinued from tax year 2027-28.
- MAT rate to be reduced from 15% to 14%. MAT credit to be allowed under the new regime only.
- No deduction to be allowed for interest expenditure incurred to earn dividend income or income from units of mutual funds.
- Safe harbour margin of 15.5% proposed for Information Technology services with a higher threshold of INR2,000 crore.
- Fast track unilateral APA mechanism to be introduced for IT services companies whereby APAs to be concluded within two years, with a possible six-month extension at the taxpayer's request.
- Modified return facility for the entity entering into APA to be extended to its associated entities, for APA entered on or after 1 April 2026.
- The time limit for filing revised income-tax return to be increased from 9 months to 12 months from the end of the relevant tax year.

## Highlights



**INR73,990 crore**

Telecom budget allocation



**51.2%**

YoY growth in export performance of telecom instruments

Validity of advance ruling

**3**  
years



**5**  
years

- Updated income-tax returns to be permitted after issuance of a reassessment notice, with an additional tax.
- TCS on overseas tour packages to be reduced to 2% without any threshold. TCS on scrap to be increased to 2%.
- Immunity from penalty and prosecution to be expanded for under-reporting of income in consequence of misreporting, subject to payment of additional tax.
- Retrospective amendments to reduce litigation on the following issues:
  - Reassessment framework has been clarified as being distinguished between pre-assessment enquiries by the Assessing Officer and faceless assessment by National Faceless Assessment Centre.
  - Assessments not to be invalid on ground of any mistake, defect or omission on account of computer-generated DIN, if such assessment is referenced by computer generated DIN in any manner.
  - Clarification that the assessment timeline applies to draft order stage under DRP route.
- Supply of manpower services clarified to be covered as 'contractual work' for the purpose of withholding tax. Therefore, withholding tax rate of 1%/ 2% to be applicable.
- Penalties for delays (e.g., audit report, statement of financial transactions) to be rationalized and converted into mandatory fees.
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## Indirect Tax:

### Customs

- Extended validity of customs advance rulings (three to five years) enhances certainty and confidence in duty classification and tax positions.
- Enhanced duty deferral period for Authorised Economic Operators (AEO) Tier 2 and Tier 3 from 15 days to 30 days.

### Goods and Services Tax

- Provision requiring discounts to be pre-agreed and linked to specific invoice to be omitted.
- The place of supply of intermediary services to be the location of recipient of service.
- The Government to empower any existing authority to hear the appeals till the time National Appellate Authority for advance ruling is constituted.

## Impact analysis

India's telecommunications sector has firmly established itself as the backbone of the country's digital transformation. Over the past decade, telecom connectivity has expanded steadily, with total telephone connections rising from approximately 933 million in 2014 to over 1.2 billion by November 2025, and tele-density increasing from 75% to 86.8%, driven largely by growth in rural areas. This enhanced connectivity has facilitated digital inclusion, improved access to services, and positioned telecom as a critical enabler of economic and social development. The sector's strategic importance is further underscored by its contribution of around 1.2% to India's GVA and its role in supporting multiple industries in a technology-driven 21st century.

Budget 2026, the first prepared in Kartavya Bhawan, is guided by the three kartavya - accelerating economic growth, fulfilling citizens' aspirations and realizing the vision of Sabka Sath, Sabka Vikas. In line with this, the Government continues to focus on strengthening India's telecom ecosystem through initiatives such as BharatNet, Digital Bharat Nidhi, 100 5G Labs, 6G research.

The policy thrust on domestic manufacturing is also evident. Building on the India Semiconductor Mission 1.0, ISM 2.0 will focus on producing equipment and materials, designing full-stack Indian IP and fortifying supply chains. The Electronics Components Manufacturing Scheme, which has already attracted double its targeted investment, is proposed to be expanded to INR40,000 crore. Coupled with long-term income-tax exemptions and a 15% safe harbour for specified data center services until 2047, these measures are expected to attract investments, enhance supply chain resilience and support the scalable growth of India's telecom and digital ecosystem.

Government initiatives, including the AI Mission, National Quantum Mission, R&D and Innovation Fund, and AI-integrated platforms like Bharat-VISTAAR, are transforming telecom networks beyond traditional connectivity into strategic enablers of next-generation digital services. Despite ongoing challenges from regulatory levies and GST compliance, the focus on 5G deployment, technology-driven growth and targeted policy support is creating a momentum that positions the sector for a new phase of innovation and opportunity. Export performance, including a 51.2% YoY growth in telecom instruments in FY25, alongside declining imports, demonstrates progress in import substitution and aligns with the broader PLI framework.

In summary, Budget 2026 reinforces India's telecom sector as a cornerstone of a technology-enabled economy. With continued focus on infrastructure, innovation, domestic manufacturing and next-generation digital services, the sector is poised for sustained growth, enhanced global competitiveness and meaningful contributions toward the vision of a Viksit Bharat.

# Glossary

AEO - Authorized Economic Operators

AI - Artificial Intelligence

DoT - Department of Telecommunications

GST - Goods and Services Tax

IFSC - International Financial Services Centre

IP - Intellectual Property

MAT - Minimum Alternate Tax

PSU - Public Sector Undertaking

R&D - Research and Development

USOF - Universal Service Obligation Fund

MAT - Minimum Alternate Tax

ICDS - Income Computation and Disclosure Standards

Ind AS - Indian Accounting Standards

MCA - Ministry of Corporate Affairs

APA - Advance Pricing Agreement

TCS - Tax Collected at Source

CBDT - Central Board of Direct Taxes

IFSC - International Financial Services Centre

TP - Transfer Pricing



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