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Union BUDGET 2026-27

#EYonBudget2026

Macro fiscal

- **Growth:** The Economic Survey (FY26) projected a real GDP growth in the range of 6.8% to 7.2% for FY26. Nominal GDP growth in FY27 is budgeted at 10%.
- **Revenue highlights:**
  - Gross Tax Revenue (GTR) growth in FY27 (BE) is budgeted at 8% over FY26 (RE), indicating a fall in buoyancy from 0.9 to 0.8 over the corresponding period.
  - Direct tax growth is budgeted at 11.4% in FY27 (BE) over FY26 (RE).
  - Indirect tax growth is budgeted at only 3% in FY27 (BE) over FY26 (RE) - mainly attributable to a contraction in GST revenues.
- **Assignment to states**: Growth in assignment to states is budgeted at 9.6% in FY27 (BE) over FY26 (RE).

- **Expenditure priorities:**
  - Infrastructure investment: GoI's capital expenditure has been kept at INR12.2 lakh crores for FY27 (BE), amounting to 3.1% of GDP.
  - Revenue expenditure growth is budgeted at 6.6% in FY27 (BE) over FY26 (RE).
- **Continuing focus on fiscal consolidation:**
  - The fiscal deficit to GDP ratio is budgeted to fall to 4.3% of GDP in FY27 (BE) from 4.4% in FY26 (RE).
  - The stated target is to reduce the debt-to-GDP ratio from the estimated level of 56.1% in FY26 (RE) to 55.6% in FY27 and further to 50% ± 1% by FY31.
  - The Budget pursues a balance between pursuing fiscal consolidation and sustaining growth.

Capital expenditure (FY27 (BE))

INR12.2 lakh crore
(3.1% of GDP)

4.3%
Fiscal deficit to GDP ratio for FY27 (BE)

50% ±1%
Targeted debt-to-GDP ratio by FY31

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Policy (1/2)

- **Scaling up manufacturing in seven strategic and frontier sectors:**
  - **Biopharma:** Biopharma SHAKTI with an outlay of INR10,000 crores over the next five years.
  - **Semiconductors:** Semiconductor Mission 2.0 to expand India's capability in the semiconductor sector.
  - **Electronics components:** Increase outlay to INR40,000 crore for Electronics Components Manufacturing Scheme.
  - **Rare earth magnets:** Dedicated rare earth corridors to promote mining, processing, research and manufacturing.
  - **Chemicals:** Three dedicated chemical parks.
- **Capital goods:** Scheme for construction equipment and containers.
- **Textile:** Self-reliance in natural fibers along with the Textile Expansion and Employment Scheme and a National Handloom and Handicraft Programme.
- **Support for MSMEs:** MSMEs will be supported through an SME Growth Fund and professional institutions providing compliance support.
- **Continued infrastructure push:** An Infrastructure Risk Guarantee Fund will be set up. Dedicated freight corridors and 20 new waterways will be operationalized. Seven high-speed rail corridors between cities to be developed as 'growth connectors'.

INR10,000 crore
SME Growth Fund

INR40,000 crore
Electronics Component Scheme

Policy (2/2)

- **Financial sector reforms:** A high-level committee on banking for "Viksit Bharat" will be set up to undertake a comprehensive review of the sector. Additionally, the Restructuring Power Finance Corporation (PFC) and Rural Electrification Corporation (REC), as well as a review of the Foreign Exchange Management Act (FEMA), will be undertaken.
- **Sustained energy transition efforts:** A scheme for the adoption of Carbon Capture Utilization and Storage (CCUS) will be set up. Basic customs duty will be exempted on goods required for nuclear projects and on capital goods required for lithium-ion cells and critical minerals processing.
- **Agriculture productivity:** Coconut, cashew and coco promotion schemes will be set up. Bharat-VISTAAR, a multilingual AI tool that shall integrate the AgriStack portals and the Indian Council of Agricultural Research (ICAR) package on agricultural practices, is proposed.
- **Export promotion:** Exporters of textile, footwear and leather products will have 12 months instead of six months to complete exports using duty-free inputs. Additionally, duty exemption benefits on inputs for export production have been extended to include shoe-upper manufacturers.

INR20,000 crore

Carbon Capture Utilization and Storage (CCUS)

INR5,000 crore

For each City Economic Region (CER) over five years

Corporate Tax (1/5)

- **Tax rate for units in International Financial Services Centre (IFSC) on income earned after the tax holiday period:**
  - Eligible business income of units in IFSC will now be taxed at 15% instead of the 22% or 30% rate applicable to income earned after the tax holiday period. This is applicable from tax year 2026-27.
- **Changes proposed in respect of the Minimum Alternate Tax (MAT):**
  - MAT changes from tax year 2026-27 onwards.
  - MAT proposed to be reduced from the 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 electronic 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 the old regime.
    - Set off of MAT credit if transitioning to the 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 the 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 an 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 the Income-tax Act (ITA), taxpayers are allowed a deduction for interest expenditure up to 20% of dividend income while computing income under the head 'Income from other sources'. Such deduction shall not be allowed from tax year 2026–27 onwards.

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Corporate Tax (2/5)

- **Deductibility of an employee's contribution to specified funds:**
  - Currently, employees' contribution to specified funds such as provident fund and Employees' State Insurance are allowed as a deduction only if deposited within the statutory due date prescribed under the respective laws.
  - It is now proposed to allow deduction of an employee's contribution if such contribution is deposited on or before the due date for filing the return of income, even where payment is not made within the statutory due date.
- TDS:
  - The definition of "work" for payment to resident is amended to clarify that payment for the 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.
  - Interest on the compensation amount awarded by the Motor Accidents Claims Tribunal to an individual will now not be subject to tax deduction at source. This amendment is effective from 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	▪ 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

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Corporate Tax (3/5)

- **Exempt incomes:**
  - In order to attract investments in data center and promote artificial intelligence data center framework in India, an exemption will now be provided to foreign companies earning any income by way of procuring data center services from specified data centers in India up to tax year 2046-2047, subject to certain conditions.
  - In order to provide tax certainty to foreign company supplying capital equipment to contract manufacturers of electronic goods, any income arising in India to a 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 up to tax year 2030-31.
- **Extension of ITR due date for non-audit cases:**
  - The due date for filing the return of income by non-audit business cases, partners of non-audit firms and trusts not requiring audit is extended to 31 August following the tax year from the existing time limit of 31 July. This amendment is applicable from tax year 2025–26 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 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 the cases where (a) loss is reduced or (b) reassessment notice is issued.
  - However, in cases where 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 the 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.

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Corporate Tax (4/5)

- **Stay of demand:**
  - Presently, a taxpayer can obtain a stay of demand on an order which is in appeal by paying 20% of the amount payable under the Act (including the 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 penalties and prosecution:**
  - Following offences are now fully decriminalized:
    - failure to produce the books of accounts and documents.
    - failure to pay or ensure the payment of tax where payment is made (i) "wholly or partly" in kind. In case of benefits or perquisites provided in the course of business or profession, in case of winnings from a lottery, crossword puzzle). (ii) wholly in kind in case of payments made for online games and for the transfer of Virtual Digital Assets.
- Punishment for certain offences is made proportionate to the nature of default by the following broad amendments:
  - Nature of punishment is changed from rigorous imprisonment to simple imprisonment in the case of certain defaults.
  - Maximum imprisonment is reduced to two years for a first offence and three years for a subsequent offence instead of the existing limit of seven years.
- The above changes apply from 1 March 2026 onwards.
- Penalty for certain technical defaults (for e.g., failure to get accounts audited, furnishing a statement of financial transaction or reportable account, non-furnishing of transfer pricing audit report) will now be removed and instead a fee will be levied. This will apply from tax year 2026-27 onwards.
- Immunity from imposition of penalty or prosecution presently available in cases of under-reporting of income will be extended to cases of misreporting. This will apply from tax year 2026-27 onwards.

Corporate Tax (5/5)

- **Reduced tax rates on unexplained cash, credits:**
  - Presently, any income on account of unexplained credits, unexplained investment, unexplained asset, or expenditure and amount borrowed or repaid through negotiable instrument, hundi, etc., is taxed at the rate of 60% with a penalty of 10% of the tax amount.
  - The tax rate is reduced from 60% to 30%. Further, a penalty of 10% is omitted. However, such an offence will continue to be subject to a penalty of 200% applicable for misreporting of income. Taxpayer can, however, claim immunity from such penalty by making a payment of 120% of the tax payable on such income.
  - The above amendments will apply from tax year 2026-27 onwards.

- **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 the Ministry of Corporate Affairs and the Central Board of Direct Taxes (CBDT) will be formed to integrate ICDS and the Indian Accounting Standards.

International Tax

- Tax break announced on high-growth sectors for non-residents
  - For cloud-based businesses/data center sector:
    - A proposal has been made to provide tax exemption to foreign companies on income arising from procuring data center services from a specified data center.
    - To qualify for the exemption, all sales by such foreign company to users located in India must be made through a reseller that is an Indian company.
    - A specified data center must be set up under an approved scheme notified by the Ministry of Electronics and Information Technology (MeitY) and must be owned and operated by an Indian company.
    - This amendment will be effective from 1 April 2026 (tax year 2026–27 onwards) and will continue up to 31 March 2047.

- Electronics manufacturing:
  - A proposal has been made to provide tax exemption to foreign companies on income arising from providing capital goods, equipment, or tooling to an Indian contract manufacturer.
  - The exemption applies when the contract manufacturer is an Indian resident company producing electronic goods for the foreign company located in a customs-bonded area.
  - This amendment will be effective from 1 April 2026 (tax year 2026–27 onwards). The exemption will be available up to the tax year 2030-31.

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Transfer Pricing (1/8)

- A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors
  - IT services sector
    - Currently, the Safe Harbour regime categorizes IT sector services into four distinct groups: software development services, IT enabled services, knowledge process outsourcing, and contract R&D services related to software development. Each category is subject to different revenue thresholds and Safe Harbour rates.
    - Broadly, the current Safe Harbour rules are as follows:

Services	Safe Harbour rate
Software development services and IT enabled services	▪ Transaction value does not exceed INR100 crore – 17% on operating cost (OC) ▪ Transaction value exceeds INR100 crore but does not exceed INR 300 crore – 18% on OC
Knowledge process outsourcing	▪ Employee cost is at least 60% of operating expense – 24% on OC ▪ Employee cost is 40% or more but less than 60% of operating expense - 21% on OC ▪ Employee cost does not exceed 40% of operating expense - 18% on operating expense
Contract R&D services	▪ 24% on operating expense

Unified Safe Harbour rate (IT services sector)

15.5%

5 **years**

Block period of choice

EY

Transfer Pricing (2/8)

- A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors (continued)
  - In the Budget speech, the Finance Minister has proposed the following changes:
    - A unified category of IT services combining (a) software development services, (b) IT enabled services, (c) knowledge process outsourcing and (d) contract R&D services relating to software development
    - A common Safe Harbour margin of 15.5% apply to this unified category.
    - The Safe Harbour eligibility threshold for IT services enhanced from INR300 crore to INR20 billion.
  - Safe Harbour for IT services shall be approved through an automated rule-driven process without tax officer intervention.
  - Once applied, a company may continue using the same Safe Harbour for a continuous block of five years at its option.
- Data center services
  - The Budget proposes a Safe Harbour of 15% on cost for an Indian captive data centre service provider.

Data center services

15%

Transfer Pricing (3/8)

- A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors (continued)
  - Electronics manufacturing
    - To harness the efficiency of just-in-time logistics for electronic manufacturing, the Budget proposes to provide Safe Harbour to non-residents for component warehousing in a bonded warehouse.
    - The proposal seeks to provide a Safe Harbour profit margin of 2% on the invoice value, with a resulting tax incidence estimated at about 0.7%.
  - The SHR-related proposals are announcements made as part of the Budget speech which need to implemented by way of rules.
  - The effective dates and impact of such proposals need to be evaluated once the rules are notified.

- Reinforcing the commitment to enhance the effectiveness of Advance Pricing Agreement (APA) program
  - Fast track of unilateral APA for IT services
    - The Budget proposes to fast track and conclude the Unilateral APA process for IT services within two years, with a possible extension of six months on the taxpayer's request.
    - This provides better commitment and timelines certainty for the taxpayers.

Component warehousing
2% of invoice value

Tax incidence
0.7%

Transfer Pricing (4/8)

- Reinforcing the commitment to enhance the effectiveness of Advance Pricing Agreement (APA) program (continued)
  - Modified return by non-residents
    - Under the provisions of the current law, a non-resident AE earning taxable income from an international transaction (e.g., royalty, interest, fees for technical services) is generally not able to claim refund for tax paid or withheld on the income by way of a corelative downward adjustment pursuant to an APA entered into by resident AE, even though the APA may have reduced the expense deduction in the hands of the resident taxpayer.
- Proposal to allow such non-resident AEs to file modified returns in accordance with the APA terms potentially enabling them to claim downward adjustment and seek refund for taxes paid or withheld.
- Timelines for such modified return by non-resident: within a period of three months from the end of the month in which the APA is concluded.
- Interplay between provisions of law relating to downward TP adjustment and this amendment needs to be carefully evaluated.
- This proposal is only available under APA forum and not for MAP cases.
- This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards).

Advance Pricing Agreement (APA) fast track

Modified return by non-residents

Transfer Pricing (5/8)

- Restoring the legislative intent by reversing judicial precedents and defining assessment timelines
  - Clarification on the manner of computation of 60 days for Transfer Pricing Officer to pass the transfer pricing order for a tax year.
    - Uncertainty around due date arose mainly on counting of 60-days time limit from the due date for passing the draft assessment order.
    - Proposal to clarify the manner of computing the 60-day time limit available to the TPO for passing an order determining the ALP
      - Under Income-tax Act, 1961

Scenario	Timeline to pass TPO order
Where assessment limitation expires on 31 March (non-leap year)	30 January of that year
Where assessment limitation expires on 31 March (leap year)	31 January of that year
Where assessment limitation expires on 31 December	1 November of that year

      - Under Income-tax Act, 2025

Scenario	Timeline to pass TPO order
Where assessment limitation expires on 31 March	31 January of that year
Where assessment limitation expires on 31 December	31 October of that year

    - The amendment will take effect retrospectively from 1 June 2007.

Timeline clarified

Transfer Pricing (6/8)

- Restoring the legislative intent by reversing judicial precedents and defining assessment timelines
  - Draft assessment orders under the Dispute Resolution Panel (DRP) route: Impact on assessment timelines
    - A few recent judicial decisions narrowed the permissible window for assessments by strictly construing statutory time limit
    - Proposal to clarify that a draft assessment order may be issued at any time within the prescribed time limit for completing an assessment, reassessment, or re-computation.
    - Proposal to provide that the assessment will continue under the DRP process ('DRP time-lines') and will not become time-barred.
    - The time available to the Assessing Officer to complete the assessment thereafter will be governed by the DRP timelines, and not by the general limitation provisions.
    - These amendments will apply retrospectively from 1 April 2009 for regular assessments and from 1 October 2009 for search-related assessments.
  - The above proposals nullify the judicial precedents that have taken a contrary view.
  - This amendment will be incorporated under both Income-tax Act, 1961 and Income-tax Act, 2025.

Transfer Pricing (7/8)

- Shifting from penalty-based enforcement to a fee-based compliance framework
  - Income-tax Act, 1961 enforces a penal framework for non-compliance with the Form 3CEB filing within the due date whereby fixed penalty of INR100,000 is levied.
    - Proposal to convert the fixed penalty of INR100,000 for failure to furnish Form 3CEB into mandatory graded fee.

Scenario	Revised fee
Delay of up to one month	INR50,000
Delay beyond one month	INR100,000

  - This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards).
- Specified domestic transactions
  - Proposal to exclude transactions with newly established SEZ units from the scope of SDT.
  - No deduction will be allowed for transactions connected with newly established SEZ units for the income enhanced after ALP computation.

Shift from penalty to fee

Transfer Pricing (8/8)

- Unified framework for assessment and penalty proceedings
  - Assessment and penalty proceedings will now be integrated through a common order to reduce multiplicity and improve ease of doing business.
  - No interest will apply on the penalty amount during the appeal period before the first appellate authority, regardless of the outcome of the appeal.
  - The pre-payment requirement for filing an appeal will reduce from 20% to 10% and will continue to be computed on the core tax demand.
- It is now clarified that an assessment will not be treated as invalid merely due to a mistake, defect or omission in quoting the Document Identification Number (DIN).
- This clarification will be incorporated under both Income-tax Act, 1961 and Income-tax Act, 2025.

Unified framework for assessment and penalty

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Goods and Services Tax (GST)

- The place of supply of intermediary services to be the location of the recipient of service.
- Provision requiring discounts to be pre-agreed and linked to a specific invoice to be omitted.
- Discount to be allowed as deduction if a GST credit note is issued and corresponding input tax credit is reversed by the recipient.
- Provisional refund to be granted for refunds arising from an inverted tax structure.
- Minimum refund threshold of INR1,000 to not be applicable in cases of export of goods with payment of tax.
- Till the time the National Appellate Authority for Advance Ruling is constituted, the government may empower any existing authority to hear the appeals.

Export status to intermediary services

Provisional refund in case of inverted tax structure

Discounts to be allowed even if not pre-agreed

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EY

Customs

- Customs duty rates proposed to be calibrated to simplify the tariff structure, support domestic manufacturing, promote export competitiveness and correct inversion in duty.
- Validity of advance ruling to be extended from three years to five years, unless there is a change in law or facts.
- 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 conditions as may be prescribed.
- Deferred Payment of Import Duty Rules, 2016 are being amended to allow monthly duty payment in place of the existing 15 days for all eligible importers. Benefit of deferred duty payment also to be extended to 'manufacturer importer' till 31 March 2028.
- The Baggage Rules, 2016 to be superseded by Baggage Rules, 2026.
- Jurisdiction of the Customs Act,1962 will be extended beyond India's territorial waters for fishing and related activities by Indian-flagged fishing vessels.
- Section 28 of the Customs Act,1962 is being amended to deem payment of penalty as charge for 'non-payment of duty'.

Rate calibration and phased withdrawal of exemptions

Deferred duty payment timelines extended

3 years → **5 years**

Validity of advance ruling

Personal Tax (1/2)

- **Personal Tax rates:** No change in the income tax rates and slabs under the old and new tax regimes.
- **New Income Tax Act, 2025:** The Income Tax Act, 2025 will come into effect from 01 April 2026. Simplified income tax rules and forms will be notified shortly, providing adequate time for taxpayers to familiarize themselves.
- **Updated timelines for filing original and revised tax returns:** The time limit for revising income tax returns has been extended to 31 March from 31 December, with a small fee. Individuals will continue to file income tax returns by 31 July, while non-audit business cases and trusts will file returns by 31 August.
- **Investments in India by PROI:** Individual PROIs (Person Resident Outside India) are permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme (PIS). Individual PROI limits under PIS increased from 5% to 10% with the overall limit increased from 10% to 24%.
- **Reduction of TCS rates:** TCS rate on overseas tour packages reduced from 5% and 20% to a flat 2%, with no threshold. TCS rate on Liberalised Remittance Scheme (LRS) for education and medical expenses reduced from 5% to 2%.

No change in Personal Tax rates

Due date for revised return extended to

31 March

Personal Tax (2/2)

- **Disclosure of foreign assets:** A special six-month window has been introduced for two categories of taxpayers to declare: Category A–undisclosed income or assets up to INR1 crore; and Category B–taxpayers who disclosed foreign income and/or paid tax but did not declare foreign assets up to INR5 crore.
- **Relaxation for Resident Individuals/ HUFs buying property from non-residents:** Relaxation from the requirement to obtain a Tax Deduction or Collection Account Number (TAN) by a resident individual or HUF, where the seller of the immovable property is a non-resident.
- **Supply of manpower to be categorized as contractual payments for TDS purposes:** TDS of 1% for payment to individuals/ HUFs, TDS of 2% on payment to others.
- **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 01 October 2024, providing relief to taxpayers who may have inadvertently missed reporting such assets.
- **Increase in STT rates:** Increase in Securities Transaction Tax (STT) rates on Futures from 0.02% to 0.05% and STT on options premium and exercise of options to be raised to 0.15% from rates of 0.1% and 0.125%, respectively.
- **Exemption for non-residents under the notified scheme:** Exemption for the global income of non-resident experts for a stay period of five years under notified schemes.

Budget 2026

Sectors-wise data

Agriculture

Automobile

Chemicals

Consumer Products & Retail

Aerospace and defense

Financial Services

Infrastructure

Pharmaceutical

Media & Entertainment

Oil and Gas

Real estate

Start-up

Technology

Telecom

Power & Utilities

Agriculture (1/5)

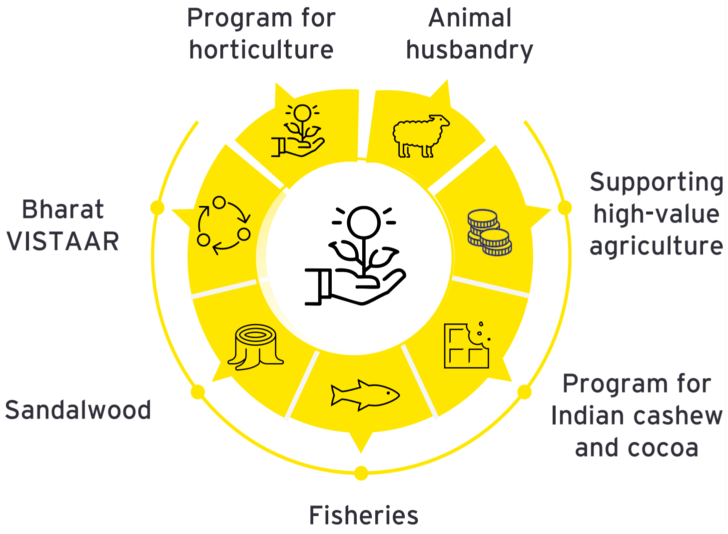
<u>First Kartavya: Accelerate and sustain economic growth</u>

- **Empowering farmers with technology:**
  - New technologies to support farmers with better productivity and smarter field decisions.
  - National tech missions – AI, Quantum and major research funds – to bring advanced tools to agriculture.
- **Integrated program for development of the textile sector:**
  - National Fibre Scheme to be launched for self-reliance in natural fibers such as silk, wool and jute, man-made fibers and new-age fibers.
  - National Handloom and Handicraft Programme to be launched to integrate and strengthen existing schemes and also ensure targeted support for weavers and artisans.
- **Strengthen khadi, handloom and handicrafts:**
  - Mahatma Gandhi Gram Swaraj initiative to be launched to strengthen khadi, handloom and handicrafts, benefiting weavers, village industries, One District One Product and rural youth.
- **Creating "Champion SMEs" and supporting micro-enterprises:**
  - INR10,000 crore SME Growth Fund to be introduced for incentivizing enterprises based on select criteria.

Total expenditure for agriculture

INR1,62,671 crore

Government's Sankalp: Increasing farmers' income



Agriculture (2/5)

- **Creating "Champion SMEs" and supporting micro enterprises (contd.):**
  - Capital allocation of INR2,000 crore for the Self-Reliant India Fund to support micro enterprises.
  - Additional measures to be introduced for developing a secondary market, and to enhance liquidity and settlement of transactions for MSMEs through the Trade Receivables Electronic Discounting System (TReDS) platform.
- **Promoting environmentally sustainable cargo movement:**
  - New dedicated freight corridors to enhance efficient, green cargo logistics.
  - Operationalization of 20 new National Waterways over the next five years to boost inland water transport.
  - Coastal Cargo Promotion Scheme to be launched to incentivize a modal shift from rail and road, increasing the share of inland waterways and coastal shipping.

Second Kartavya: Fulfil the aspirations of our people

- **Boosting farmers' income through ayurvedic exports:**
  - To meet the rising global demand for Ayurvedic products and boost exports, several steps will be taken, including the establishment of three new All India Institutes of Ayurveda. Indian farmers producing Ayurvedic herbs should benefit from this renewed focus on Ayurveda.

20 New National Waterways
Over the next five years

Coastal Cargo Promotion Scheme to increase share of inland waterways

3 All India Institutes of Ayurveda to be set-up

Agriculture (3/5)

- **Animal husbandry:**
  - Loan-linked capital subsidy support scheme to be introduced for the establishment of veterinary and para-vet colleges, veterinary hospitals, diagnostic laboratories and breeding facilities in the private sector.

<u>Third Kartavya: Sabka Sath, Sabka Vikas toward a Viksit Bharat</u>

- **Supporting high-value agriculture:**
  - To diversify farm output, boost productivity, raise farmers' incomes and generate new jobs, support will be extended for high-value crops such as coconut, sandalwood, cocoa and cashew in coastal regions, along with Agar trees in the North-East and nuts like almonds, walnuts and pine nuts in hilly areas.
  - Coconut Promotion Scheme to be launched to increase production and enhance productivity through various interventions.
  - A dedicated program to be set up to boost self-reliance and boost production for Indian cashew and cocoa.
  - In partnership with state governments, measures to be launched to promote focused cultivation and post-harvest processing of sandalwood.
- **Fisheries:**
  - Integrated development of 500 reservoirs or Amrit Sarovars to be undertaken which will strengthen value chain in coastal areas and enable market linkages for start-ups and women-led groups together with Fish Farmer Producer Organisations.

Dedicated program for **Indian cashew and cocoa**

Coconut Promotion Scheme to enhance the creation of livestock

Development of **500 reservoirs or 'Amrit Sarovars'**

Agriculture (4/5)

- **Animal husbandry:**
  - Various measures to be introduced, such as the Credit-Linked Subsidy Programme, modernization of livestock enterprises, enhancement of livestock, dairy, and poultry-focused integrated value chains, and creation of Livestock Farmer Producers Organizations Support.
- **Horticulture:**
  - A dedicated program will be developed to enhance farmer incomes through rejuvenation of old, low-yielding orchards and expansion of high-density cultivation of walnuts, almonds and pine nuts.
- **Bharat-VISTAAR (Virtually Integrated System to Access Agricultural Resources):**
  - A multilingual AI platform will be launched to connect AgriStack portals and Indian Council of Agricultural Research's package of practices with advanced AI systems, helping farmers improve productivity, make better decisions, and reduce risks through customized advisory support.
- **SHE-Marts for rural women-led enterprises:**
  - Community-owned Self-Help Entrepreneur (SHE) Marts will be established as community-owned retail outlets within cluster-level federations through enhanced and innovative financing instruments.

Credit-Linked Subsidy Programme to enhance the creation of livestock

Bharat-VISTAAR

Multilingual AI platform

Community-owned retail outlets

SHE Marts

Agriculture (5/5)

- **Key direct tax proposals:**
  - No change in individual and corporate tax rates (except Minimum Alternate Tax).
  - Business profits earned by a primary cooperative society engaged in the supply of cattle feed and cottonseed produced by members are to be allowed as a deduction.
  - Inter-cooperative society dividend income to be allowed as a deduction under the new tax regime to the extent distributed to members.
  - Dividend income received by a notified national co-operative federation from investments made in companies up to 31 Jan 2026 to be exempt from tax for a period of three years. Exemption to be allowed only for dividends distributed to its member co-operatives.
  - TCS on sale on tendu leaves reduced to 2%.
- **Key indirect tax proposals**
- Fish harvested by Indian flagged vessels beyond territorial waters of India:
  - Can be brought into India duty free.
  - Where it lands at a foreign port, it may be treated as exports.
- Exemption from basic customs duty for Naphtha for manufacture of fertilizers to lapse w.e.f. 01 April 2026.

3-year exemption

On dividend income received by notified national co-operative federation

5% » 2%

TCS on sale of tendu leaves reduced

EY

Automobiles (1/3)

- To support advanced manufacturing:
  - Dedicated corridors for rare earth minerals across four states (Odisha, Kerala, Andhra Pradesh and Tamil Nadu) to promote mining, processing, research and manufacturing.
  - A budgetary outlay for the **Electronics Component Manufacturing Scheme** has been increased to **INR40,000 crore**, up from the earlier allocation of **INR22,919 crore.**
- The place of supply of intermediary services to be the location of the recipient of service.
- Provision requiring discounts to be pre-agreed and linked to a specific invoice to be omitted. Discount to be allowed as deduction if a GST credit note is issued and the corresponding input tax credit is reversed by the recipient.
- Section 28 of the Customs Act, 1962 is being amended to deem the payment of penalty as a charge for 'non-payment of duty'.
- Deferred Payment of Import Duty Rules, 2016 is being amended to allow monthly duty payment in place of the existing 15 days for all eligible importers. The benefit of deferred duty payment is to be extended to 'manufacturer importer' till 31 March 2028.
- No change in tariff rates or effective rates for automobiles. Further, changes in relation to auto components are summarized below:
  - Nil Basic Customs Duty (BCD) for compounds, inorganic or organic, of rare earth metals covered under HSN 2846 vide new entry 111A w.e.f. 2 February 2026 in Notification No. 45/2025 dated 24 October 2025 (Notification).

INR7,939.90 crore

Total (revenue + capital outlay) for FY26-27

Incremental combined auto and ACC PLI allocation

Approx. INR4,000 crore

Validity of Customs Advance Ruling

3 years → **5** years

Automobiles (2/3)

- Extension of sunset clauses (from 31 March 2026 to 31 March 2028) for exemptions (key entries) in the Notification.

S. No. of Notification	HSN	Description
138	3824 99 00, 8505 11 90	The following goods for use in the manufacture of Brushless Direct Current (BLDC) motors, namely: (i) Magnet resin (strontium ferrite compound/before formed, before magnetization) (ii) Neodymium magnet (before magnetization)
205	7204	All goods (ferrous scrap)
277	85 or any other Chapter	Goods imported for being tested in specified test centers
295	85 or any other Chapter	(i) 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 (ii) Sub- parts for use in manufacture of items mentioned at (i) above
296	Any Chapter	Inputs, parts or sub-parts for use in the manufacturing of Printed Circuit Board Assembly (PCBA) (falling under tariff item 85079090) of lithium-ion battery and battery pack
314	Any Chapter	Parts, sub-parts, inputs or raw material for use in manufacture of lithium-ion cells falling under tariff item 8507 60 00
321	8507 60 00	Lithium-ion cell for use in the manufacture of battery or battery pack of electrically operated vehicle or hybrid motor vehicle

Automobiles (3/3)

- To provide clarity, manpower supply services specifically included under the ambit of "work" and taxes to be deducted at source for such services at the rates prescribed for contractual services, i.e., 1% when payment is made to an individual or HUF and 2% in other cases.
- Tax collection at source on the sale of scrap increased from 1% to 2%.
- To facilitate transition to the new corporate tax regime, the Government has amended the Minimum Alternate Tax (MAT) framework by reduction of the MAT rate from 15% to 14% and not allowing MAT credit carry forward henceforth. Also, past MAT credit set off against normal tax will be allowed under the new tax regime up to 25% of the tax liability of domestic companies.

- In order to rationalize tax on buyback of shares, it is proposed to shift the taxation of share buybacks from dividend to capital gains. Additional income tax to be imposed on promoters, leading to the following effective tax rate (excluding surcharge and cess):
  - Effective tax rate for promoters (excluding short-term capital gains on unlisted shares):
    - Domestic-company promoters: 22%
    - Other promoters: 30%
  - Existing capital gains tax rate to apply for:
    - Promoters on short-term capital gains from unlisted shares
    - All other shareholders

Chemicals (1/3)

With the aim of transforming aspiration into achievement and potential into performance, several key announcements were made to strengthen the manufacturing sector and energize the chemicals industry.

Boost to the manufacturing sector

Capital investments on infrastructure

- Establishing three dedicated Chemical Parks on a cluster-based plug-and-play model, enhancing domestic chemical production and reducing import dependency – *positive impact for domestic chemical manufacturers.*
- Setting up "Biopharma Shakti" with an outlay of INR10,000 crore to develop India as a global biopharma manufacturing hub – *positive impact for speciality chemicals.*
- Increasing the outlay for Electronics Components Manufacturing Scheme to INR40,000 crore capitalizing on the momentum - *positive impact for speciality chemicals.*
- Proposal to set up Mega Textile Parks, with a focus on bringing value addition to technical textiles – *positive impact for textile chemical sector.*
- Creating a globally competitive container manufacturing ecosystem with an allocation of INR10,000 crore – *positive impact for chemicals sector.*
- Reviving 200 legacy industrial clusters to improve cost competitiveness and efficiency through infrastructure and technology upgradation.

Three dedicated Chemical Parks

Capital expenditure

INR12.2 lakh crore

INR40,000 crore

Electronics Components Manufacturing Scheme

Chemicals (2/3)

- For the movement of cargo:
  - Establishing new dedicated freight corridors connecting Dakuni to Surat.
  - Operationalizing 20 new National Waterways over five years, including industrial centers like Kalinga Nagar to the ports of Paradeep and Dhamra.

Other announcements

- Achieving higher readiness levels in end use applications through Carbon Capture, Utilization, and Storage technologies across five industrial sectors, <u>**including chemicals,**</u> with an outlay of INR20,000 crore over five years.
- Dedicated initiative for sports goods that will promote manufacturing, research and innovation – *positive impact for material sciences.*
- Launching India Semiconductor Mission 2.0 producing equipment and materials and focusing on industry-led research and training centers - *positive impact for speciality chemicals.*

Equity support to MSME

- Introducing dedicated SME growth fund of INR10,000 crore incentivizing enterprises on select criteria.
- Topping up Self-Reliant India Fund with INR2,000 crore continuing support to micro enterprises.
- Various policy announcements to provide liquidity support to MS

Key Direct Tax related proposals

- No change in individual and corporate tax rates (except Minimum Alternate Tax).

SME growth fund
INR10,000 crore

INR20,000 crore
Carbon Capture, Utilization, and Storage technologies

Chemicals (3/3)

Key Indirect Tax related proposals

- New tariff line items created for various chemical products.
- Basic Customs Duty (BCD) reduced to nil for monazite and sodium antimonate (used for solar glass manufacture).
- BCD for potassium hydroxide increased from nil to 7.5%.
- BCD exemptions withdrawn for the below products effective 1 April 2026:
  - Castor oil cake and castor de oiled cake (supplied from SEZ to DTA)
  - Naphtha for manufacture of fertilizers
  - Maltol (for deferiprone)
- BCD concession withdrawn for the below products :
  - Alpha pinene (effective 2 February 2026)
  - Ammonium phosphate/ammonium nitro phosphate (effective 2 February 2026)
  - Zeolite (for catalytic converters) (effective 1 April 2026)
- BCD exemption extended up to 31 March 2028 for the below products:
  - Capacitor grade polypropylene granules/resins
  - Super absorbent polymer (SAP) for specified goods
  - Polytetramethylene ether glycol (PTMEG) for manufacture of spandex yarn

New tariff line items for various chemicals

Various changes announced in BCD structure

Consumer Products and Retail (1/3)

- Transforming the **textile sector** through:
  - **National Fibre Scheme** for natural, manmade and new-age fibers, modernizing clusters under the **Textile Expansion and Employment Scheme**, supporting weavers and artisans via a **National Handloom and Handicraft Programme**, promoting sustainable production under **Tex-Eco Initiative**, and enhancing skills through **Samarth 2.0**.
  - **Mahatma Gandhi Gram Swaraj Initiative** to strengthen khadi, handloom and handicraft sectors, enhance skills, improve quality and expand market linkages.
  - **Mega textile parks** will be developed in challenge mode, with a focus on enhancing value addition in technical textiles.
- Transforming the **sports sector** through:
  - Initiative to position India as **a global hub for** high-quality, affordable **sports goods** through manufacturing, research and innovation in equipment design and material sciences.
  - Expand sports infrastructure and facilities under Khelo India Programme to nurture talent and support athletic development.
- Bolster MSMEs through an INR10,000 crore Growth Fund, enhance credit access, expand Trade Receivables Discounting System (TReDS) for timely payments, and measures to improve export competitiveness.
- **Strengthen Ayurveda** through **new institutes**, **upgrade AYUSH infrastructure** and **global wellness integration**.

Transforming textile and sports sectors

Bolster MSME sector

Consumer Products and Retail (2/3)

- Accelerate **tourism growth** through:
  - National Institute of Hospitality, guide upskilling pilot scheme, National Destination Digital Knowledge Grid, development of 15 iconic heritage sites and sustainable nature tourism trails and strengthening infrastructure, skills and competitiveness.
  - **Focused push for North-East states** with INR6,812 crore funding, multi-state Buddhist tourism circuit and strengthened healthcare infrastructure.
- Enhance farmers' income through agricultural diversification, high-value crop support and value addition initiatives.
- **Rationalization of TCS rates:**

Particulars	From	To	Impact
Sale of alcoholic liquor	1%	2%	↑
Sale of tendu leaves	5%	2%	↓
Sale of scrap	1%	2%	↑
Remittance under Liberalised Remittance Scheme (LRS), amount> INR10 lakh for education and medical treatment	5%	2%	↓
Overseas tour packages	5%/20% *	2%	↓

Accelerate tourism

Enhance farmers' income

Rationalize TCS rates

** 5% for amount up to INR10 lakh and 20% for amount exceeding INR10 lakh*

Consumer Products and Retail (3/3)

- Modification in tariff rate (Customs duty)

Commodity	From	To	With effect from
Umbrellas (other than garden umbrellas)	20%	20% or INR60 per piece, whichever is higher	02 February 2026
Parts, trimmings and accessories of articles of heading 6601 to 6602	10%	10% or INR25 per kg, whichever is higher	02 February 2026
All dutiable goods, imported for personal use	10%	11% (effective rate)	01 April 2026
Specified goods for use in the manufacture of Microwave Ovens	As applicable	Nil	02 February 2026

- **Social Welfare Surcharge (SWS) on parts of electronic toys** has been exempted from 02 February 2026
- **Baggage rules revamped** to address concerns of international travelers to provide clarity on temporary carriage of goods, explicit allowance for one new laptop, and increase general free allowance from INR50,000 to INR75,000.
- Measures introduced to promote exports of specified marine, leather and textile products, including increasing the duty-free limit of specified inputs from 1% to 3% of export Freight on Board value and extending the time limit for exports from six months to one year.

Tariff rates modified

Baggage rules revamped

Aerospace and defense

- Total budget allocation for the Ministry of Defence (MoD) is **INR7,84,678 crore**, marking a ~**15.18%** increase over the FY 2025-26 Budget Estimate (BE).
- Allocation of **INR2,19,306 crore** for capital outlay, which is a sharp increase of **~21.83%** over FY 2025-26 (BE). Revenue expenditure allocation increased to **INR3,65,479 crore**, a **17.24%** increase over FY 2025-26 (BE).
- Nearly two-thirds of the capital budget is focused on key segments, notably **aircraft and aero engines** and **other equipment,** indicating priority for big-ticket acquisitions, including Medium Role Fighter Aircraft (MRFA), Unmanned Aerial Systems (UAS), Counter-UAS, artillery, air defense and missile systems.
- Steady rise of ~15% in defense R&D budget to bolster indigenous defense technology development, a cornerstone of the Atmanirbhar Bharat initiative.
- Total modernization budget is **INR3,07,360 crore,** which indicates a top priority for addressing equipment advancement and capability gaps.
- Extension of tax holiday period for International Financial Services Centre (IFSC) units engaged in leasing of aircrafts or ships **to 20 consecutive years out of a block of 25 years.** During the non-holiday periods, eligible income to be taxed at the rate of 15%.
- Basic Customs Duty (BCD) exemption on raw materials imported for the manufacture of parts of aircrafts to be used in MRO (maintenance, repair, or overhaul) requirements by public sector units in the Ministry of Defence.
- BCD exemption has been extended to components and parts required for the manufacture of civilian, training and other aircrafts.

21.83% increase in capital outlay allocation and **17.24%** in revenue expenditure allocation

Boost to aircraft leasing in IFSC - tax holiday period extended to **20 years**

BCD exemptions to lower costs in aircraft manufacturing and MRO value chain

EY

Financial Services (1/3)

Tax proposals:

- The rate of Securities Transaction Tax (STT) to be increased on the sale of options from 0.1% to 0.15%, on exercised options from 0.125% to 0.15% and on sale of futures from 0.02% to 0.05%. Buyback of shares will now be taxed as capital gains instead of dividend income. A higher rate of tax is provided for promoters in addition to the applicable tax rates.
- Safe Harbour rate of 15.5% on operating costs proposed for the combined category of Information Technology Services; turnover threshold for Safe Harbour eligibility increased to INR2,000 crore.
- Rate of Tax Collected on Source (TCS) on Liberalised Remittance Scheme (LRS) for education or medical treatment to be reduced from 5% to 2% and on sale of overseas tour programme packages from 5%/20% to 2% (without any threshold). Any amount previously added back to the income of a non-life insurer for non-deduction or non-payment of Tax Deducted at Source (TDS) will be allowed as a deduction in the year in which the TDS is actually paid.
- Interest income paid or credited to any cooperative society engaged in the business of banking (including land mortgage banks) shall be exempt from TDS.

Incentive of INR100 crore for a single issuance of municipal bonds of more than

INR1,000 crore

15% Minimum Alternate Tax (MAT) rate reduced **14%**

Financial Services (2/3)

- Capital gains exemption on redemption of Sovereign Gold Bonds restricted only to bonds originally subscribed and not to bonds purchased from the secondary market.
- Penalty introduced for not furnishing or furnishing inaccurate information on transactions involving crypto-assets.
- No deduction of interest incurred for earning dividend income or income from units of mutual funds.
- For units in International Financial Services Centre (IFSC), it is proposed to extend the tax holiday from 10 to 20 years.
- Specific place of supply provision for intermediary services proposed to be deleted (from a date to be notified). Intermediary services to fall under the general recipient-based provision, impacting existing export and import tax positions.

Policy proposals:

- A High Level Committee on Banking for "Viksit Bharat" to be constituted to comprehensively review and align the sector with India's next phase of growth.
- Public sector Non-Banking Financial Companies (NBFCs) Power Finance Corporation and Rural Electrification Corporation to be restructured to achieve scale and improve efficiency.
- Comprehensive review of the Foreign Exchange Management (FEMA) (Non-Debt Instruments) Rules to create a more contemporary, user-friendly framework for foreign investments.
- Individual Persons Resident Outside India (PROI) to be allowed to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme; increase in individual PROI limits from 5% to 10%, with the overall investment limit for all individual PROIs increased to 24% from the current 10%.

Financial Services (3/3)

- Introduction of a market-making framework for corporate bonds with suitable access to funds and derivatives on corporate bond indices; introduction of total return swaps on corporate bonds.
- Incentive of INR100 crore for a single municipal bond issuance by large cities with an issue size of more than INR1,000 crore; the current scheme under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) for smaller and medium cities to continue.
- Accelerate the recycling of significant real estate assets of Central Public Sector Enterprises (CPSEs) through the setting up of dedicated Real Estate Investment Trusts (REITs).

GIFT City, International Financial Services Centres (IFSC)

Extension in the tax holiday period for units in IFSC and a rationalization of tax rate

- Currently, a 100% tax deduction is available to:
  - Offshore Banking Units (OBUs) – 10 consecutive years.
  - All other units in IFSC - 10 consecutive years out of a block of 15 years.
- For the non-tax holiday period, taxes are levied at the applicable rates in force.

- Now, the following amendments have been proposed:
  - Tax holiday period is proposed to be extended to 20 consecutive years for OBUs.
  - Tax holiday period is proposed to be extended to 20 consecutive years out of a block of 25 years for all other units in IFSC.
  - Tax on eligible income of these units for the non-tax holiday period shall be 15%.
  - To claim the tax holiday, it should be ensured that such a unit (set up after 1 April 2026) is not formed by splitting up or reconstruction or reorganization or transfer of a business already in existence in India.

GIFT City, IFSC

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

- Currently, there is an exemption from deemed dividend provisions in case of a loan or advance between two group entities where one of the group entity is a corporate treasury center in IFSC and the parent or principal entity of such group is listed in a country or territory outside India.
- The 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 the parent or principal entity, shall be notified by the central government.
  - The terms 'group entity' and 'parent entity' or 'principal entity' are now defined.

Infrastructure (1/3)

- Enhancement of the Construction and Infrastructure Equipment (CIE) scheme to strengthen domestic manufacturing of high-value and technologically advanced CIE.
- Container Manufacturing Scheme with an outlay of INR10,000 crore over five years proposed to create a globally competitive container manufacturing ecosystem.
- Infrastructure Risk Guarantee Fund to be set up to mitigate risks for private developers during the development and construction phases.
- New dedicated freight corridors connecting Dankuni to Surat and operationalization of 20 new National Waterways over the next five years to promote environmentally sustainable cargo movement.
- Regional Centers of Excellence to be established as training institutes for developing skilled workforce and generating employment.
- Ship repair ecosystem for inland waterways to be developed at Varanasi and Patna.
- Coastal Cargo Promotion Scheme to incentivize modal shift from road and rail, targeting an increase in the share of inland waterways and coastal shipping from 6% to 12% by 2047.
- Seaplane Viability Gap Funding scheme proposed to incentivize indigenous manufacturing and operational support, with the objective of improving last-mile and remote connectivity and promoting tourism.

INR12.2 lakh crore
Allocated capital expenditure (capex)

Infrastructure Risk Guarantee Fund announced

Coastal Cargo Promotion Scheme aimed at doubling the share of waterways to 12% by 2047

Infrastructure (2/3)

- Outlay of INR20,000 crore proposed over the next five years under the Carbon Capture, Utilization, and Storage scheme to achieve higher readiness levels in end-use applications across five industrial sectors, including power, steel, cement, refineries and chemicals.
- Outlay of INR5,000 crore per City Economic Region (CER) over five years proposed for Tier II and Tier III cities to implement their infrastructure development plans through a challenge mode with a reform-and-results-based financing mechanism.
- Seven new high-speed rail corridors to be developed between cities as growth connectors.
- Incentive of INR100 crore proposed for the issuance of a single bond exceeding INR1,000 crore to municipal corporations, while the INR200 crore incentive continues under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme to support small and medium towns.
- Effective 1 April 2026 (tax year 2026-27), the tax holiday for a unit in the IFSC is extended from 10 years (out of 15 years) to 20 years (out of 25 years). Post-expiry of the tax holiday, business income of the unit in the IFSC will be taxed at 15%.
- Minimum Alternate Tax provisions will not apply to non-residents engaged in the business of operating cruise ships, effective 1 April 2026 (tax year 2026-27).

INR5,000 crore per CER

Allocated for urban infrastructure over five years

Tax holiday period for units in IFSC extended from 10 years to 20 years

Infrastructure (3/3)

- Effective 1 April 2026 (tax year 2026-27), a 20-year tax holiday up to 31 March 2047 is proposed for foreign companies providing global cloud services using data centers located in India. Services provided to Indian users are to be routed through an Indian reseller entity.
- Sanction of provisional refunds of 90% within seven days of application will now also be extended to inverted tax refunds.
- The requirement to establish the discount in terms of an agreement entered into before or at the time of supply, and specifically linking it with relevant invoices, has been omitted.
- Place of supply for intermediary services will shift from the location of the service provider to the location of the service recipient.
- Enhancement of customs duty deferral period for Tier II and Tier III Authorised Economic Operators (AEOs) from 15 days to 30 days.
- As a one-time measure, eligible SEZ manufacturing units will be permitted to sell a prescribed proportion of output into the domestic tariff area at concessional duty rates to address capacity under-utilization.
- Customs process reforms have been announced, including longer validity of advance rulings, enhanced duty deferral for authorized economic operators, operator-centric warehousing and rollout of a unified customs digital platform.

Tax holiday for foreign companies providing iCloud services to customers using India data center

Pharmaceutical (1/2)

- Biopharma SHAKTI (Strategy for Healthcare Advancement) has been announced with an outlay of INR10,000 crore over the next five years to develop India as a global pharmaceutical manufacturing hub. This includes:
  - Establish a biopharma-focused network of three new National Institutes of Pharmaceutical Education and Research (NIPERs) and upgrade seven existing NIPERs to deepen biopharma research.
  - Set up a network of over 1,000 accredited clinical trial sites to accelerate clinical development.
  - Strengthen the Central Drugs Standard Control Organization(CDSCO) to meet global standards and approval timelines through a dedicated scientific review cadre and specialists.
- Basic Customs Duty (BCD) exemption on 17 drugs, and duty relief on drugs and specialized foods for seven additional rare diseases, to reduce landed costs and improve access to high-value niche therapies.
- To give an impetus to traditional medicine/Ayurveda, a proposal has been made to set up three new All India Institutes of Ayurveda (AIIA), upgrade AYUSH pharmacies and drug-testing labs, and upgrade the WHO Global Traditional Medicine Centre.

INR104,599 crore

Estimated healthcare expenditure for FY26-27

INR10,000 crore

Outlay to build the biopharma ecosystem

Basic Customs Duty (BCD) exemption on 17 drugs

EY

Pharmaceutical (2/2)

- Existing Allied Health Professionals ('AHP') institutions to be upgraded and new AHP institutions to be established with a focus in 10 selected disciplines, adding 1,00,000 AHPs over the next five years.
- Training of 1.5 lakh multi-sector caregivers to support geriatric and allied care services.
- **Promotion of medical tourism** through a scheme supporting states in establishing five regional medical hubs, serving as integrated healthcare complexes that combine medical, educational, and research facilities, with private sector collaboration.
- **Establishment of NIMHANS-2** in North India and upgradation of mental health institutes in Ranchi and Tezpur to expand national institutional capacity for mental healthcare.
- **Increase in emergency and trauma care centers** by 50% in district hospitals to scale emergency care infrastructure and improve service availability at the district level.
- **Loan-linked subsidies for veterinary colleges, hospitals, labs, and breeding centres** to support growth in animal health pharma, vaccines, and diagnostics.

Media & Entertainment (1/2)

Government support for the AVGC sector:

- India's Animation, Visual Effects, Gaming and Comics (AVGC) sector is projected to require two million professionals by 2030. The government will support the Indian Institute of Creative Technologies, Mumbai, in setting up AVGC content creator labs in 15,000 secondary schools and 500 colleges.

Income Tax proposals:

- ***Penalty for non-compliance in reporting crypto transactions:***
  - A new compliance provision has been introduced under the New Income Tax Act, 2025, obligating qualified persons or entities to furnish specified information on crypto-asset transactions.
- To ensure compliance and create a deterrent against non-furnishing or furnishing inaccurate information, the Union Budget 2026 proposes introducing a penalty provision with effect from 1 April 2026, as follows:
  - Levy of a penalty of INR200 per day for non-furnishing of statements.
  - Levy of a penalty of INR50,000 for furnishing inaccurate particulars or failure to correct inaccuracies.

Support in setting up content creator labs for the AVGC sector

Penalty for non-reporting of crypto transactions

Media & Entertainment (2/2)

- *Media GCCs in India:*
  - Software development, ITeS, KPO services and contract R&D related to software are now clubbed within the broader framework of Information Technology Enabled Services, with a Safe Harbour margin of 15.5% that can be applied for five years at a stretch through an automated, rule-driven process.
  - The threshold for application of the Safe Harbour has been materially extended to approximately US$220 million from the earlier approximately US$33 million.

- *Indirect Tax:*
  - The place of supply for intermediary services is proposed to be the location of the recipient instead of the location of the supplier, enabling zero-rating benefits for export-related services.

Combined Safe Harbour margin for India GCCs

Oil and Gas

- Aligned with the December 2025 roadmap, an outlay of INR20,000 crore has been proposed over the next five years for large-scale deployment of Carbon Capture Utilization and Storage (CCUS) technologies, which can advance readiness of various sectors including refineries.
- International Financial Services Centre (IFSC)-based ship-leasing units (including vessels for oil and gas) and oilfield-equipment leasing units will be eligible for a tax holiday of 20 consecutive years out of 25 years. After the tax holiday, eligible income will be taxed at 15%.
- Under the Minimum Alternate Tax (MAT) regime for foreign companies operating through a Branch Office or Project Office structure in India, the rate shall be 14%. MAT credit generated from 2026-27 onwards cannot be carried forward. However, past MAT credit can be utilized in the prescribed manner.
- The 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.
- The applicability of 5% concessional BCD has been extended from 31 March 2026 to 31 March 2028 on:
  - Import of vessels such as tugs and rigs.
  - Machinery and equipment for power or bio-compressed natural gas (CNG) projects that use non-conventional materials.
- The value of biogas/ compressed biogas and the related Goods and Service Tax paid, when included in blended CNG, will be excluded from excise-duty valuation effective from 2 February 2026.
- The implementation of the levy of additional excise duty of INR2 per liter on unblended diesel is deferred till 31 March 2028.

IFSC tax holiday extension

10 years » 20 years

Basic Customs Duty exemption extended to

31 March 2028

Real estate

- Special Real Estate Investment Trusts (REITs) to be launched for the monetization of public sector real estate assets.
- Continued focus on Tier 2, Tier 3 cities (now including temple towns) by allocating INR5,000 crore over five years per City Economic Region (CER).
- Promoting foreign investments in data centers located in India by introducing a tax holiday to foreign companies up to 2047 for providing cloud services globally.
- Boost to industrial and logistics corridors through university townships development, including research institutions, skill centers and residential complexes.
- Development of textile parks, chemical parks and dedicated rail freight corridors to enhance manufacturing in India.
- Rationalization of TDS compliance on immovable property acquisition by resident individuals or HUFs from non-residents.

Dedicated REITs for public sector real estate assets

For Tier 2, Tier 3 cities and temple towns over the next 5 years

INR5,000 crore per CER

Fostering data centers

Tax holiday to foreign cloud service providers

up to 2047

EY

Start-up (1/2)

- The Union Budget 2026 sends a positive signal to India's start-up ecosystem by reinforcing a capex-led, reform-driven growth strategy aligned with the vision of Viksit Bharat. The government's emphasis on ease of doing business, technology adoption and access to capital creates an enabling environment for innovation-led enterprises.
- Start-ups are expected to benefit from the strong push on manufacturing, electronics, semiconductors, biopharma, AVGC, AI and deep-tech, along with targeted measures to scale MSMEs and emerging enterprises.
- The proposed SME Growth Fund, Self-Reliant India Fund, expansion of Trade Receivables Electronic Discounting System (TReDS), and improved access to risk capital are likely to ease funding constraints for growth-stage start-ups.
- Professional bodies such as ICAI, ICSI and ICMAI are empowered to develop 'Corporate Mitras', supporting compliance and Ease of Doing Business for MSMEs and start-ups.
- Policy initiatives relating to data centers, cloud services, fintech infrastructure, education-to-employment pathways and services exports open new growth opportunities for tech-enabled and platform-based start-ups.

INR10,000 crore
SME Growth Fund

INR2,000 crore
Self Reliant India Fund

Capex: Capital expenditure; MSMEs: Micro, Small and Medium Enterprises; AVGC: Animation, Visual Effects, Gaming and Comics; SME: Small and Medium Enterprises; ICAI: Institute of Chartered Accountants of India; ICSI: Institute of Company Secretaries of India; ICMAI: Institute of Cost Accountants of India

Start-up (2/2)

- While there is no change in the corporate income tax rates, for companies which are under the old corporate tax regime, the MAT rate is reduced from 15% to 14%. Further, no MAT credit is allowed from 01 April 2026 if continued under the 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 a smoother transition for corporates from the 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 is 22%, while that for non-corporate promoters is 30%.
- Safe Harbour TP margins for IT/ ITES/ KPO and contract R&D services relating to software development are proposed to be reduced to 15.5%.
- Foreign companies availing services from Indian data centers and earning income from such services will enjoy an income tax exemption until 2027, reducing their tax exposure when operating through Indian reseller arrangements. A new exemption has been announced for non-residents visiting India to render services under a forthcoming specified scheme (details awaited).
- A comprehensive overhaul of the FEMA Non-Debt Instrument (NDI) / FDI Rules has been initiated to create a modern, simplified, and investor-friendly framework aligned with India's evolving economic priorities.

MAT: Minimum Alternate Tax; FY: Financial year TP: Transfer pricing; ITES: Information Technology Enabled Services; KPO: Knowledge Process Outsourcing; R&D – Research and development; FEMA: Foreign Exchange Management Act; NDI: Non-Debt Instrument; FDI: Foreign Direct Investment

Technology (1/2)

- New Income Tax Act, 2025 will be effective from 1 April 2026; relevant rules and forms would be notified shortly.
- Increased outlay for the Electronics Components Manufacturing Scheme from INR22,000 crore to INR40,000 crore.
- Exchange control regulations for foreign investment in India proposed to be reviewed to align with India's evolving economic priorities.
- Transfer pricing provisions in relation to the IT industry overhauled:
  - Clubbing of services under a single category of IT services with a common Safe Harbour margin of 15.5%.
  - Increasing Safe Harbour thresholds from INR300 crore to INR2,000 crore.
  - Automated rule-driven process to opt for Safe Harbour, with a validity period of up to five years.
- Provision of a tax holiday until 2047 for foreign companies providing cloud services to global customers through India-based data center services:
  - Related entities providing data center services from India will get a Safe Harbour of 15% on cost.

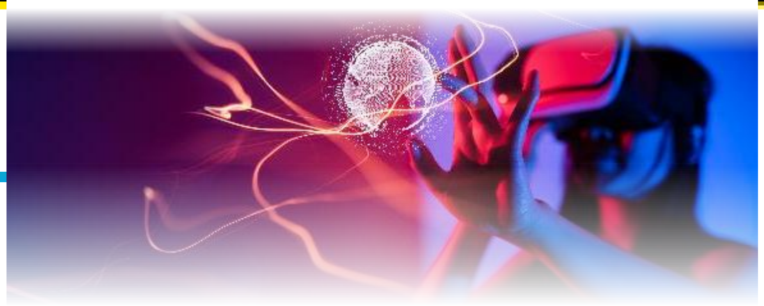
INR40,000 crore

Increased outlay for Electronics Component Manufacturing, from INR 22,000 crore to INR40,000 crore

15.5%

Single and rationalized Safe Harbour margins for the **IT sector**

Technology (2/2)



- Minimum Alternate Tax (MAT) rate reduced from 15% to 14%; MAT credit set-off to be allowed only under the new tax regime and up to 25% of the tax liability.
- Integration of Income Computation and Disclosure Standards (ICDS) into Indian Accounting Standards (Ind-AS) proposed, with consequent removal of ICDS provisions and disclosures from tax year 2027-28.
- Rationalization of various penalty and prosecution provisions, including decriminalization and conversion of certain penalties to fines or fee.
- Amendments introduced to clarify the time-limits for completion of assessments and that the assessments will not be invalid due to mistake/ omission in the Document Identification Number (DIN).
- Buyback of shares shall be chargeable as capital gains, instead of erstwhile taxation as dividend income.
    - An effective tax liability of 22%/30% for corporate promoters/ non-corporate promoters.
- A push toward customs-process modernization with AI-enabled risk assessment, advanced imaging and non-intrusive scanning to deliver faster and more transparent clearances.
- Export status for ‘intermediary services’ to be granted with the aim to enhance the GCC ecosystem in the country.

Telecom

- 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.
- In order to attract investment in data centers and promote artificial intelligence data center framework in India, long-term income-tax exemptions to be provided for specified data center services till 31 March 2047.
- India Semiconductor Mission 2.0 to be launched to produce equipment and materials, design full-stack Indian IP and fortify supply chains.
- Safe Harbor margin of 15.5% is proposed for Information Technology Services, with a higher threshold of INR2,000 crore.
- Enhanced INR40,000 crore allocation to strengthen momentum in the Electronics Components Manufacturing Scheme.
- Tax holiday window for eligible International Financial Services Centre (IFSC) units to be increased to 20 years and the post-holiday tax rate to be rationalized to 15%.
- Minimum Alternate Tax (MAT) to be reduced from 15% to 14%. MAT under the old regime to be treated as final tax.
- Buy-back proceeds to be treated as capital gains and a higher effective tax to be imposed on promoter gains.
- Extended validity of Customs advance rulings (three to five years) enhances certainty and confidence in duty classification and tax positions.

INR24,000 crore

Telecom budgetary allocation:

- BharatNet: **INR20,000 crore**
- Compensation to telecom providers: **INR3,600 crore**
- R&D revenue: **INR400 crore**

Power & Utilities

- The Budget commits INR20,000 crore over the next five years to Carbon Capture Utilization and Storage (CCUS) across power and heavy industry, signaling large-scale industrial decarbonization and a shift toward retaining coal-based generation with a clear carbon-mitigation framework.
- The Budget extends customs duty exemptions across key clean-energy and strategic sectors – including nuclear power projects (until 2035), lithium-ion batteries, solar glass, battery energy storage systems, and critical mineral processing – lowering costs, strengthening domestic manufacturing and signaling a strategic shift from mere clean energy deployment to enabling technology localization.
- It advances power-sector financing reform through the restructuring of Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) and an Infrastructure Risk Guarantee Fund, focusing on financial de-risking and asset monetization rather than direct subsidies across power, transmission, distribution and storage, towards a resilient, long-term finance framework.

INR20,000 crore
CCUS outlay for the next five years

Customs duty exemptions extended for all nuclear power projects till 2035

For details on other sectors and solutions visit our website

Union Budget 2026

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Decoding Budget 2026

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