FoxMandal
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Union Budget Highlights 2026-27

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Foreword

The Union Budget 2026-27 marks another decisive step toward achieving the vision of Sabka Vikas, with a renewed emphasis on long-term growth, economic resilience, and structural reform. Presented by Union Finance Minister Smt. Nirmala Sitharaman on February 1, 2026, the Budget seeks to balance fiscal discipline with strategic investments that are expected to accelerate India's development trajectory.

In keeping with the government's priorities, the Budget reinforces support for infrastructure, manufacturing, and technology-driven sectors while continuing to promote inclusive growth for key demographic groups — including youth, farmers, women, and micro and small enterprises.

Key proposals in the Budget include a record increase in public capital expenditure to drive infrastructure expansion; the launch of flagship initiatives such as Biopharma SHAKTI to position India as a global biopharmaceutical hub; expansion of the India Semiconductor Mission 2.0 to strengthen domestic chip manufacturing and supply chains; and the creation of dedicated rare-earth corridors to support critical mineral production. Additionally, the Budget targets simplification of tax compliance through the implementation of the new Income Tax Act, 2025, and includes measures to enhance healthcare affordability by exempting customs duties on select medicines.

This insight document presents the key takeaways from Budget 2026-27, highlighting its major fiscal outcomes and the initiatives expected to shape India's economic landscape in the years ahead.

Shuva Mandal
Managing Partner

DIRECT TAX PROPOSALS

Key Proposals

TAX RATES AND SURCHARGE:

- No change in basic income tax slab or rates applicable to individuals, firms, LLPs or companies.
- The existing surcharge structure (including marginal relief) remains unchanged.
- The Health and Education Cess also continues at 4%.

EASE OF LIVING & COMPLIANCE SIMPLIFICATION

- Employee welfare contributions, deduction linked to ITR filing due date - The Finance Bill, 2026 proposes to link the deduction of employee welfare contributions to the due date of filing the return of income under the Income-tax Act, 1961 where the due date will be the due date for filing the IT return (Section 139(1)), not the labor law due date. This means that employers will not lose the deduction merely due to a minor delay in depositing the contribution, as long as the amount is deposited before the income-tax return is filed.

- Exemption for interest received under Motor Vehicles Act compensation framework - The Finance Bill, 2026 proposes to amend Section 11 read with Schedule III of the Income-tax Act, 1961 to provide an exemption to an individual or his legal heir in respect of interest received on compensation awarded under the Motor Vehicles Act, 1988, arising from death, permanent disability, or bodily injury.

  This amendment recognises the compensatory nature of such interest and seeks to alleviate financial hardships faced by accident victims and their families by ensuring that the interest component of the compensation is not subjected to income tax.

- No TDS on interest on compensation awarded by Motor Accidents Claims Tribunal (MACT), removal of INR 50,000 threshold - Under the current law, Section 393(4) provides a no TDS position only if the interest on MACT compensation does not exceed INR 50,000 in a tax year. The Finance Bill 2026 proposes to remove this hardship by providing that no tax shall be deducted at source in respect of such interest paid to an individual, which prevents reduction of the actual receipt at the time of need and avoids post fact refund cycles. Effective from 1 April 2026.

- TAN relaxation for resident buyers purchasing immovable property from non-resident: The Finance Bill, 2026 proposes to amend Section 397(1)(c) so that a resident individual or HUF is not required to obtain a TAN merely to deduct tax on consideration paid for purchase of immovable property from a non-resident. The practical benefit is significant for one of transactions, because buyers can comply without getting TAN for a single deal, reducing procedural delay at registration and payment stages.

- Single depository level declaration for nil TDS, and quarterly reporting: Under Section 393(6) of the Income-tax Act, 1961 taxpayers currently furnish a declaration to each payer for specified incomes such as dividend, interest on securities, and mutual fund unit income. The Finance Bill, 2026 proposes that investors may file such declaration with their depository, which will transmit it to the relevant payers, and also changes reporting by payers to the prescribed authority from monthly to quarterly, subject to conditions, including holding securities or units in the depository and listing on a registered stock exchange in India. Practically, this reduces repetitive paperwork for investors with multiple portfolios and reduces compliance frequency for payers, especially companies and fund houses processing large retail bases. Effective from 1 April 2027.

- Application of TDS on supply of manpower: The Finance Bill, 2026 proposes to clarify the applicable TDS provision for payments made for supply of manpower. Under the current Income Tax law regime, payments for carrying out "work" are subject to TDS at lower rates, while payments for professional or technical services attract higher rates. Due to this overlap, there has been uncertainty on whether manpower supply should be treated as a work contract or a technical service. To remove this ambiguity, the Finance Bill, 2026 proposes to amend the applicable law to expressly include supply of manpower within the definition of "work", ensuring that TDS on such payments is applied under the contractor provisions at the applicable lower rates and reducing disputes on classification.

- Forms, Return Filing Timelines and Revision Framework: The Finance Bill, 2026 introduces a set of coordinated amendments aimed at making return filing timelines more workable and expanding the scope for revision and correction of returns. These changes are intended to provide taxpayers with greater flexibility to correct errors, regularise positions, and comply within realistic timelines, while preserving safeguards for revenue.
    - Extension of due dates for specified categories of assessees: The Finance Bill, 2026 proposes to amend Section 263(1)(c) of the Income-tax Act, 1961 to revise the due dates for filing returns for specified classes of assessees, while retaining 31 July as the due date for ITR-1 and ITR-2. Corresponding alignment is proposed through amendments to Explanation 2 to Section 139(1) of the Income-tax Act, 1961. This change seeks to create a more practical compliance calendar, particularly for non-audit business cases and certain trusts not subject to audit, by extending filing timelines beyond the earlier framework.

    - Extended time limit for filing revised returns with graded fee: The Finance Bill, 2026 proposes changes to the revised return framework by extending the time limit for filing a revised return from 9 months to 12 months from the end of the relevant assessment year, with a fee applicable where the revision is filed after the 9-month period. Corresponding amendments are proposed to Section 139(5) and Section 234I of the Income-tax Act, 1961. This provides taxpayers additional time to correct genuine errors, while encouraging timely revisions through a fee mechanism.

    - Updated return framework expanded to allow wider corrections: The Finance Bill, 2026 proposes to amend Section 263 of the Income-tax Act, 1961 to widen the scope of the updated return facility. Under the proposed amendment to Section 263(6) of the Income-tax Act, 1961, an assessee will be permitted to file an updated return even where the change results only in a reduction of the loss originally claimed, as compared to the loss declared in the return filed within the due date under Section 263(1) of the

the due date under Section 263(1) of the Income-tax Act, 1961. The Finance Bill, 2026 also allows an updated return to be furnished in response to a notice issued under Section 280 of the Income-tax Act, 1961, within the time specified in such notice. These changes enable taxpayers to correct overstated losses and regularise tax positions even after reassessment proceedings have begun, while ensuring payment of the prescribed additional tax.

RATIONALISING PENALTY AND PROSECUTION

- Relaxation of Prosecution for Foreign Asset Cases (Black Money Act): The Budget proposes a taxpayer-friendly change in the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015. Sections 49 and 50 of the Black Money Act (which prescribe prosecution, including imprisonment, for wilful failure to file returns or to disclose foreign assets/income) will be amended to not apply in cases of minor omissions. Specifically, prosecution will be inapplicable where the unreported foreign assets are not immovable property, and the aggregate value of such assets does not exceed INR 20 lakh. This move, effective retrospectively from 1 October 2024, aligns the harsh prosecution provisions with the penalty framework by excluding low-value, likely inadvertent lapses from criminal action. It provides relief to taxpayers who may have unintentionally missed reporting small foreign holdings, ensuring that minor violations do not lead to jail or criminal trials.

- Prosecution provisions under Chapter XXII of the Income-tax Act, 2025 have been streamlined, reducing penalties for several offences and shifting from criminal prosecution to civil consequences for technical or low value defaults.

    - Across sections 473 to 485 and section 494 of the Income tax Act, 2025, punishments have been significantly reduced. Rigorous imprisonment has been replaced with simple imprisonment, with most offences now capped at two years and repeat offences at three. Penalties are now graded based on the tax amount involved, and cases involving tax below INR 10 lakh attract only monetary fines instead of prosecution. Several procedural offences have been fully decriminalised.
    - TDS and TCS related defaults have been streamlined. Several offences, specifically those involving lottery winnings and perquisites, have been fully decriminalised. For online gaming and virtual digital assets, prosecution is excluded where consideration is entirely in kind. In all other cases, penalties are now graded by the amount involved, with smaller defaults attracting only fines.
    - Offences related to search and assessment proceedings have been eased, where failure to produce books or documents has been fully decriminalised, non-compliance with Assessing Officer directions now carries reduced penalties, and search-related contraventions or obstruction are punishable only with simple imprisonment and/or a reduced fine.

- Penalties for under-reporting and misreporting of income will now be imposed directly in the assessment order, eliminating separate proceedings. Interest on penalties will apply only after appellate proceedings conclude, reducing procedural steps and uncertainty.

- The scope of immunity under section 440 has been widened to cover misreporting cases as well, provided additional tax is paid instead of penalty. The additional tax is 100% of the tax for general misreporting and 120% for unexplained income. The expanded framework is proposed to apply from AY

2026–27.

- The tax treatment of unexplained income has been eased. The tax rate on unexplained credits, investments, assets, and expenses has been reduced from 60% to 30%, and the separate penalty provision has been removed. Such cases will now fall under the general misreporting penalty framework, effective from tax year 2026–27.

- To strengthen enforcement, the maximum penalty for failing to provide information to the income-tax authorities has been raised from INR 1,000 to INR 25,000, ensuring stronger deterrence even as other provisions are decriminalised.

ADVANCE PRICING AGREEMENT (APA)

- Current law permits only the person who entered into an APA to file a modified return, leaving associated enterprises unable to adjust their returns or claim refunds when their income is revised under the APA. The proposed amendment allows both the APA holder and affected associated enterprises to file original or modified returns in line with the agreement within three months of the month in which the APA is signed. This applies to APAs entered on or after 1 April 2026 and is proposed to take effect from tax year 2026–27.

ATTRACTING GLOBAL BUSINESS & INVESTMENT

- To attract global investment in data centres and AI infrastructure, Budget 2026 introduces a long-term tax exemption for foreign companies on income earned from procuring services from specified data centres in India. The exemption applies until the tax year ending 31 March 2047, offering substantial long-term tax benefit. Where the foreign company provides services to Indian users, such services must be routed through an Indian reseller entity as a condition for availing this exemption. The Budget introduces definitions for data centres, data centre services, and specified data centres. Only centres notified by MeitY under an approved scheme and owned and operated by an Indian company will qualify.

- Foreign companies will be exempt from tax on income earned from supplying capital goods, equipment, or tooling to Indian contract manufacturers of electronic goods operating in customs-bonded warehouses, provided the manufacturing is carried out on their behalf. This exemption applies up to tax year 2030-31.

- Non-resident individuals visiting India for the first time to render services under a notified Central Government scheme will be granted a five-year exemption on income accruing outside India, offering certainty for global experts and consultants.

- The current law allows IFSC units and OBUs a 100% deduction for 10 consecutive years (within 15 years for IFSC units and 10 years for OBUs). To enhance IFSC competitiveness, the deduction period will be extended to 20 consecutive years, within 25 years for IFSC units, and for 20 years for OBUs, and income earned after this period will be taxed at 15%. These changes will apply from tax year 2026–27 onwards.

- The rules for excluding dividends on inter-group advances or loans have been tightened by requiring both entities to be located in notified foreign jurisdictions and the parent or principal entity to be listed overseas. New definitions of "group entity" and "parent/principal entity" have been introduced to align with IFSC regulations.

RATIONALISATION OF CORPORATE TAX REGIME

- Budget 2026 proposes a major overhaul of the MAT regime by making MAT a final tax under the old tax regime, with no further MAT credit allowed, while reducing the MAT rate from 15% to 14% of book profits. Existing MAT credit may be set off only under the new regime and is capped at 25% of the tax liability for domestic companies and, for foreign companies, only to the extent normal tax exceeds MAT. These changes aim to smooth the transition to the new regime and will apply from 1 April 2026 (AY 2026–27 onwards).

RATIONALISATION OF OTHER DIRECT TAX PROVISIONS

Rationalisation of TCS rates is proposed as follows:-

Sl. No	Nature of receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption.	1%	2%
2	Sale of tendu leaves.	5%	2%
3	Sale of scrap.	1%	2%
4	Sale of minerals, being coal or lignite or iron ore.	1%	2%
5	Remittance under the Liberalised Remittance Scheme of an amount or aggregate of the amounts exceeding ten lakh rupees—	(a) 5% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.	(a) 2% for purposes of education or medical treatment; (b) 20% for purposes other than education or medical treatment.
6	Sale of “overseas tour programme package” including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure.	(a) 5% of amount or aggregate of amounts up to ten lakh rupees; (b) 20% of amount or aggregate of amounts exceeding ten lakh rupees.	2%

The proposed amendment will take effect from the 1st day of April, 2026.

- Section 509 requires reporting entities to file statements on crypto-asset transactions. To ensure compliance, new penalties are proposed: INR 200 per day for failing to file the statement and INR 50,000 for providing inaccurate information or not correcting errors. These penalty provisions will be added to section 446 and it is proposed to apply from 1 April 2026.

- Budget 2026 rationalises the tax treatment of NPO mergers by aligning the Income-tax Act, 2025 with the former section 12AC of the 1961 Act. A new section 354A will exempt registered NPOs from tax on accreted income under section 352 when merging with another registered NPO having similar objects, subject to prescribed conditions. Correspondingly, section 352(4) is amended to confirm that tax on accreted income will continue to apply where an NPO merges with a non-NPO, an NPO with dissimilar objects, or an NPO with similar objects that does not meet the conditions. These changes are proposed to take effect from 1 April 2026 (AY 2026–27 onwards).

- Budget 2026 proposes to withdraw the deduction for interest expenditure against dividend income and income from units of mutual funds, which are taxable under the head "Income from other sources." Currently, section 93 permits a deduction for interest expenditure subject to a cap of 20% of the gross income; however, this benefit will no longer be available. The amendment will take effect from 1 April 2026 and will apply from tax year 2025–26 onwards.

- Budget 2026 streamlines the tax framework for recognised provident funds by modernising the conditions in Schedule XI and aligning them with the current Employees' Provident Fund (EPF) Act and Scheme. With the INR 7.5-lakh annual cap on employer contributions already serving as the primary control, outdated provisions such as special rules for employee-shareholders are proposed to be removed. The reforms also employer–employee contribution parity, salary-linked relaxations, the 12% ceiling, and special rules for employee-shareholders are proposed to be removed. The reforms also clarify that only provident funds formally exempted under section 17 of the EPF Act will be eligible for tax recognition. In addition, the rigid investment requirement for government securities will be relaxed to reflect contemporary EPFO investment norms. These proposed measures will take effect from 1 April 2026 (AY 2026–27 onwards).

- Budget 2026 proposes to clarify and streamline the capital gains exemption on the redemption of Sovereign Gold Bonds (SGBs). The exemption will now apply only where the bonds were subscribed at original issuance and held continuously until maturity, ensuring consistent and uniform treatment across all RBI-issued SGB series. This amendment, aligned with the original intent of the scheme, will take effect from 1 April 2026 (AY 2026–27 onwards).

- Securities Transaction Tax (STT), originally introduced to streamline tax collection on market-traded securities, is now proposed to be revised due to the growth in derivatives trading. Budget 2026 increases STT rates on options and futures, raising the rate on option sales to 0.15% of premium, on exercised options to 0.15% of intrinsic value, and on futures to 0.05% of the traded price, to curb excessive speculation. These proposed revised rates will apply from 1 April 2026.

- Under current law, buy-back proceeds are taxed as dividend income, while the cost of the bought-back shares is treated separately as a capital loss. Budget 2026 proposes taxing buy-back proceeds as capital gains instead. For promoters, the effective tax rate on such gains will be 30%, and for promoter companies, 22%. These changes are proposed to take effect from 1 April 2026 for tax year 2026–27 onward.

INDIRECT TAX PROPOSALS

Goods & Service Tax (GST)

- Post-sale discounts made easier to claim: Section 15(3) of the Central Goods and Services Tax Act, 2017 is being amended to remove the requirement that post-sale discounts must be linked to a pre-existing agreement. Going forward, if a supplier gives a discount after sale and issues a credit note under Section 34, and the recipient reverses the corresponding input tax credit, the discount can be excluded from the taxable value. This simplifies commercial discount practices and removes documentation hurdles.

- Clear linkage between valuation and credit notes: Section 34 of the Central Goods and Services Tax Act, 2017 is being amended to specifically refer to Section 15, clarifying that credit notes issued for post-sale discounts are directly connected to valuation provisions. This removes ambiguity and aligns the law with actual business practices.

- Faster refunds for inverted duty structure cases: Section 54(6) of the Central Goods and Services Tax Act, 2017 is being amended to allow provisional refunds even in cases of inverted duty structure. This means businesses paying higher GST on inputs than outputs can now receive quicker refund relief instead of waiting for full verification.

- No minimum limit for export refund claims: Section 54(14) of the Central Goods and Services Tax Act, 2017 is being amended to remove the minimum threshold for sanctioning refund claims where goods are exported on payment of tax. Exporters will now be eligible for refunds regardless of the amount involved, improving cash flow and reducing procedural barriers.

- Interim solution for GST appellate disputes: A new Section 101A(1A) is being inserted in the Central Goods and Services Tax Act, 2017 to allow the Central Government to temporarily empower an existing authority or tribunal to hear appeals under Section 101B, until the National Appellate Authority is formally constituted. This ensures that GST appeals are not stalled due to institutional gaps and provides continuity in dispute resolution.

Customs Act

- Customs Act jurisdiction is extended beyond territorial waters for Indian fishing and related activities.

- "Indian flagged fishing vessel" is now specifically defined in the Customs Act.

- Penalty paid under section 28(5) will be treated as a charge for non-payment of duty once determined under section 28(6).

- Advance rulings will be valid for 5 years or until law/facts change, with an option to extend existing rulings for 5 years from the original date on request.

- New section 56A allows Indian flagged fishing vessels to fish beyond territorial waters, brings such catch into India duty free, and treats landings at foreign ports as exports, with detailed regulatory powers.

- Warehoused goods can be moved from one bonded warehouse to another without prior officer permission, subject to prescribed conditions.

- Board can now frame regulations for custody (not just examination) of imported/export goods under section 84.

- Renewable Energy and Solar Manufacturing: Basic Customs Duty on sodium antimonate used in the manufacture of solar glass (Tariff Heading 28419000) has been reduced from 7.5% to Nil, lowering input costs for solar glass manufacturers and supporting domestic solar capacity.

- Nuclear Power and Energy Infrastructure: Basic Customs Duty on all goods used for generation of nuclear power (Tariff Heading 84013000) has been reduced from 7.5% to Nil, reducing capital costs for nuclear power projects.

- Nuclear Fuel and Reactor Components: Basic Customs Duty on control and protector absorber rods and burnable absorber rods used in nuclear power generation (Tariff Heading 84014000) has been reduced from 7.5% to Nil, supporting the nuclear fuel and reactor supply chain.

- Critical Minerals and Strategic Resources: Basic Customs Duty on monazite (Tariff Heading 26122000) has been reduced from 2.5% to Nil, facilitating access to strategic minerals used in advanced manufacturing and clean energy applications.

- Electronics and Consumer Appliances: Basic Customs Duty has been reduced to Nil on specified goods used in the manufacture of microwave ovens (Tariff Headings 8501, 8504 and 8516 series), encouraging domestic value addition and electronics manufacturing.

- Electric Vehicles and Energy Storage Systems: The existing Basic Customs Duty exemption on capital goods used for manufacturing lithium-ion cells for electric vehicles has been extended to also cover Battery Energy Storage Systems (BESS), supporting grid-scale and stationary energy storage projects.

- Chemical Industry: Basic Customs Duty on potassium hydroxide (Tariff Heading 28152000) has been increased from Nil to 7.5%, resulting in higher import costs for chemical manufacturers dependent on this input.

- Few conditional exemptions in 45/2025 Customs are allowed to lapse on 31 03 2026 (fertiliser naphtha, LPG for PIB manufacture, some med tech, printing machines, e readers, gaming parts, etc.).

- Several unconditional exemptions in 45/2025 Customs (animals for zoos, alpha pinene, artificial plasma, some fertiliser and diagnostic reagents, INVAR, coffee machinery, radio trunking parts, educational CD ROMs, loco simulators) are withdrawn from 02 02 2026 (in some cases effective BCD remains unchanged via Tariff).

- Sunset clause is removed for some entries (like certain electronics and vessels) but those whose rates are being shifted to Tariff will still move to Tariff from 01 05 2026.

- Gold and silver dore bars and passengers' gold/silver concessions get a uniform sunset date of 31 03 2027.

- Forged steel rings entry is merged into the general wind generator components entry, which is correspondingly modified.

- A few redundant exemption entries (EVA, certain aircraft tyres, assorted fasteners) are deleted; their effective BCD continues via Tariff.

- Four older notifications (precious stones by post, jobbing goods for export orders, copper revert products, gold/silver from copper anode slime) get BCD exemption validity extended to 31 03 2028.

- Notification 113/2003 Customs (castor oil cake from SEZ to DTA) is allowed to lapse on 31 03 2026.

- Works of art and antiques exemption (29/2025 Customs) is given a sunset date of 31 03 2028.

- SWS notification 11/2018 Customs is updated so natural graphite, quartz/quartzite, silicon dioxide and artificial graphite continue SWS exempt even after shifting from 36/2024 Customs to Tariff (effective 01 05 2026).

- SWS treatment for sub heading 2106 90 (food preparations) is realigned as concessional BCD moves from notification to Tariff; SWS incidence remains unchanged, effective 01 05 2026.

- SWS exemption for spent catalyst/ash with precious metals is preserved by updating its description when the linked concessional entry lapses on 31 03 2026.

- From 01 04 2026, SWS will be levied on all 9804 imports (dutiable goods for personal use).

- AIDC entry for aircraft tyres (4011 30 00) is technically updated from 02 02 2026 to reflect the removal of one concessional BCD entry, but the AIDC rate remains 0.5%.

- MSME Manufacturing (Umbrella Industry): A specific duty structure has been introduced for umbrellas (other than garden umbrellas) (Tariff Heading 6601), with duty fixed at 20% or INR 60 per piece, whichever is higher, to protect domestic MSME manufacturers from low-cost imports. A similar specific duty has been introduced on umbrella parts and accessories (Tariff Heading 6603), fixed at 10% or INR 25 per kg, whichever is higher, discouraging fragmented imports.

- Personal Imports and Baggage: Basic Customs Duty on all dutiable goods imported for personal use (Tariff Heading 9804) has been reduced from 20% to 10%, easing the duty burden on individual importers and international travellers.

- Food, Agriculture and Fisheries: Basic Customs Duty on meat and edible offal of turkeys, frozen (Tariff Heading 0207) has been reduced from 30% to 5%, improving availability and moderating prices for the hospitality and food processing sectors. Duty on Artemia and Artemia cysts (Tariff Headings 0306 and 0511) has been reduced from 5% to Nil, benefiting the aquaculture and fisheries sector. Duty on almonds in shell (Tariff Heading 08021100) has been reduced from INR 42 per kg to INR 35 per kg, easing import costs for dry fruits.

Other Duties

EXCISE DUTY CHANGES

- Clean Energy and Fuels i.e. Blended Compressed Natural Gas (CNG) and Unblended diesel: Excise duty computation has been rationalised by excluding the value attributable to biogas in blended CNG. This change supports the clean energy transition and ensures that excise duty is levied only on the fossil fuel component, reducing the tax burden on greener fuel blends.

- The proposed increase in excise duty on diesel not blended with biodiesel has been deferred until March 31st, 2028. This deferral avoids immediate increase in fuel prices and transportation costs while continuing to encourage gradual adoption of cleaner fuel blends.

- National Calamity Contingent Duty (NCCD) on Tobacco and Tobacco Products: The effective duty incidence remains unchanged, as corresponding notifications continue to cap the actual duty payable. This provides the Government with flexibility to adjust rates in future without immediate price impact.

SOCIAL WELFARE SURCHARGE ON IMPORTS

- There is no increase proposed in the rate of Social Welfare Surcharge under the Finance Bill, 2026, and the existing surcharge structure continues as per current law. In addition, technical amendments have been made to ensure that wherever Basic Customs Duty is exempted or reduced, the corresponding exemption or reduction under Social Welfare Surcharge also continues to apply, thereby avoiding any unintended increase in the effective import cost.

AGRICULTURE INFRASTRUCTURE AND DEVELOPMENT CESS (AIDC)

- The Finance Bill, 2026 does not propose any increase or expansion in the scope or rates of Agriculture Infrastructure and Development Cess. Wherever changes have been made to customs tariff rates, the overall incidence of duty, including AIDC, has been maintained broadly on a revenue-neutral basis through appropriate notifications, ensuring that import costs are not inadvertently escalated.

REGULATORY PROPOSALS

Ease of Doing Business

- A Joint Committee of the Ministry of Corporate Affairs and the Central Board of Direct Taxes is to be constituted to incorporate the requirements of the Income Computation and Disclosure Standards (ICDS) into the Indian Accounting Standards (Ind AS).

- Individual Persons Resident Outside India (PROIs) will be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme (PIS).

- A single, interconnected digital window will be established for cargo clearance approvals.

- The Customs Integrated System (CIS) will be rolled out within two years.

- Honest taxpayers willing to settle disputes will be able to close cases by paying an additional amount in lieu of penalties.

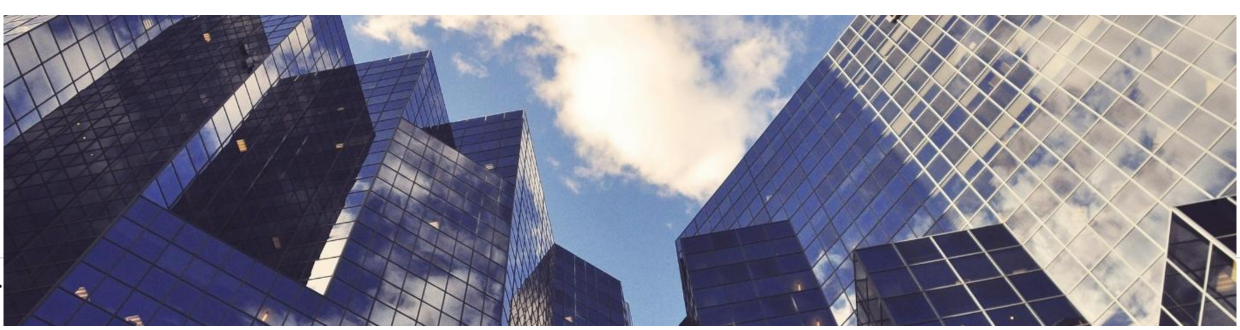
- TDS on the sale of immovable property by a non-resident will be deducted and deposited using the resident buyer's PAN instead of a TAN.

- A one-time, six-month foreign asset disclosure scheme will be introduced for small taxpayers, below a specified threshold.

- The framework for immunity from penalty and prosecution in cases of underreporting will be extended to cases of misreporting.

- Non-production of books of account and documents, and the requirement of TDS payment, will be decriminalised.

- Immunity from prosecution, with retrospective effect from 1 October 2024, will be provided for non-disclosure of non-immovable foreign assets with an aggregate value of less than ₹20 lakh.



SECTOR IMPACTS

Real Estate

- Infra Risk Guarantee Fund - Mitigates investment risks, boosts investor confidence.
- Seven-Speed Railway Corridor - Enhances transportation efficiency and connectivity.
- 20 New Water Highways - Promotes inland water transport, reduces logistics cost.
- ₹50,000 Cr. Fund for Tier 2 & 3 Cities - Spurs regional urban development and infrastructure.
- Five Regional Medical Hubs - Improves healthcare access and infrastructure.
- Five New University Townships - Strengthens education infrastructure and innovation hubs.
- Slashing TDS & TCS for NRI Property Transactions - Facilitates smoother real estate transactions.
- Increasing NRI Equity Exposure to 24% - Attracts higher foreign investment in real estate.
- Six Months Immunity for Foreign Asset Disclosure - Encourages outbound real estate investments.
- Capital Expenditure Raised to ₹12.2 Trillion: Accelerates infrastructure projects and economic growth.

IMPACT

Overall, the Budget's strategic focus on infrastructure and real estate, coupled with regulatory relaxations for NRIs, is designed to stimulate investment, enhance connectivity, and promote balanced regional development. These measures are likely to create a positive ripple effect across multiple sectors, supporting sustained economic momentum.

- Increase in Capital Expenditure (CAPEX): Capital expenditure has been increased by approximately 9%, from ₹11.21 lakh crore to ₹12.20 lakh crore, reinforcing the Government's continued commitment to infrastructure-led growth. This enhanced outlay is expected to provide a strong pipeline of projects across transportation, urban infrastructure, water, and energy sectors, thereby supporting EPC contractors and PPP developers.

- Development of Seven Dedicated High-Speed Rail Corridors: The proposed high-speed rail corridors will improve connectivity between major economic and cultural centres while promoting low-carbon, environmentally sustainable transportation. From a project finance perspective, these corridors offer long-term opportunities for PPP participation, private investment, and asset monetisation.

- Development of the North-Eastern Infrastructure Corridor: Focused investment in infrastructure development across the North-Eastern region is expected to stimulate regional economic growth, generate employment, and attract private capital into historically underdeveloped corridors. This initiative enhances the viability of infrastructure projects in the region through increased government backing.

- ₹40,000 Crore Allocation for the Semiconductor Industry: The significant allocation towards semiconductor manufacturing will catalyse the development of large-scale fabrication plants, associated industrial infrastructure, and utilities. This is expected to generate substantial EPC and project finance opportunities in industrial and technology-driven infrastructure.

- ₹20,000 Crore Allocation for Inland Waterways Development: Enhanced investment in waterways infrastructure will strengthen multimodal logistics, reduce freight costs, and open new avenues for EPC contracts and PPP models in dredging, terminals, and port-related infrastructure.

- Development of Sports Infrastructure: Investment in sports infrastructure is expected to boost construction activity, urban development, and public infrastructure creation, particularly in Tier-II and Tier-III cities.

- Issuance of Higher-Value Infrastructure Bonds: The proposal to issue infrastructure bonds of ₹100 crore per bond, aggregating to ₹1,000 crore, is aimed at deepening the domestic bond market and mobilising long-term capital for infrastructure projects, particularly in Tier-II and Tier-III cities. This mechanism aligns well with ongoing infrastructure financing initiatives in states such as Tamil Nadu.

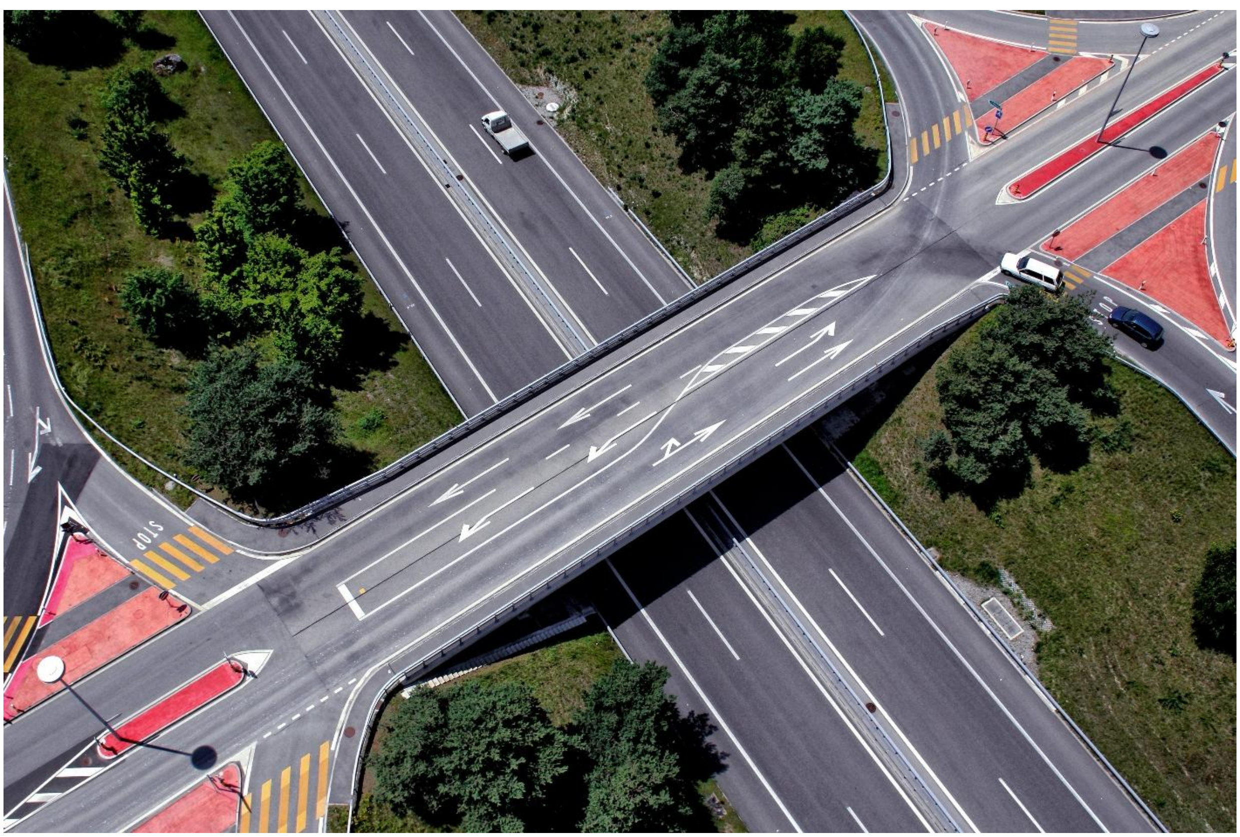
- Boost to Manufacturing of Construction Machinery: Incentives for domestic manufacturing of construction machinery are expected to reduce input costs, improve project execution efficiency, and support the broader construction and infrastructure ecosystem.

- Tourism Industry: Propose to develop 15 archeological sites including Lothal, Dholavira, Rakhigarhi, Adichanallur, Sarnath, Hastinapur, and Leh Palace into vibrant, experiential cultural destinations. Excavated landscapes will be opened to the public through curated walkways. Immersive storytelling skills and technologies will be introduced to help conservation labs, interpretation centres, and guides.

- Continued Emphasis on Infrastructure Asset Monetisation through InvITs and REITs: The continued policy support for monetisation of infrastructure assets through InvITs and REITs is expected to enhance liquidity for infrastructure developers, enable recycling of capital, and support reinvestment into new PPP and EPC projects.

- Development of Training Centres for Inland Waterways Personnel: Establishment of specialised training centres for waterways development will strengthen institutional capacity and operational efficiency, supporting the long-term sustainability of inland water transport projects.

- Tax Incentives for Data Centre and Cloud Infrastructure: The proposed tax holiday until 2047 for foreign companies providing cloud services through data centre infrastructure located in India, along with a 15% safe harbour margin for related-party data centre services, is expected to significantly boost investments in data centre infrastructure, real estate development, and employment generation in the technology sector.



Technology

- The Government has launched ISM 2.0, aimed at strengthening India's semiconductor ecosystem by promoting the domestic manufacture of equipment and materials, enabling full-stack design capabilities, fostering intellectual property, and fortifying supply chains. Additionally, focus was laid on supporting industry-led research and training centres to develop advanced technology and a skilled workforce. The Government has announced a budgetary outlay of ₹40,000 crore to accelerate this growth in the semiconductor sector.

- The Government has proposed to integrate the Government e-Marketplace (GeM) with the Trade Receivables electronic Discounting System (TReDS) for seamless information sharing and to introduce TReDS receivables as asset-backed securities.

- The Government proposed an outlay of ₹20,000 crore over five years to scale up carbon capture, utilisation, and storage technologies across five sectors—power, steel, cement, refineries, and chemicals in line with the CCUS roadmap launched in December 2025.

- Recognising the potential of the Orange Economy, particularly India's rapidly growing Animation, Visual Effects, Gaming and Comics (AVCG) sector, the Government proposes to support the Indian Institute of Creative Technologies, Mumbai, in establishing AVCG content creator laboratories in 15,000 secondary schools and 500 colleges across the country.

  Further, safe harbour approvals will be processed through an automated, rule-based system, eliminating the need for discretionary examination by tax officers.

- The Government has announced a strategic tax framework aimed at establishing India as the Data Capital of the World, under which any foreign company providing global cloud services through Indian data centres will be eligible for a tax holiday until 2047. To minimise disputes in the software sector, the Government intends to expedite the Advance Pricing Agreement (APA) process, with an ambitious objective of concluding APAs, which is critical for determining transfer pricing in IT services within a two-year timeframe.

- The Government has proposed to increase the outlay to ₹40,000 crore under the Electronics Components Manufacturing Scheme, which was launched in April 2025.

- The Government has announced strategic reforms in customs duties aimed at reducing input costs and strengthening critical manufacturing sectors. These measures include the extension of basic customs duty exemption for capital goods used in manufacturing Battery Energy Storage Systems, full customs duty exemption on sodium antimonate which is a key raw material for high-quality solar glass production and a complete customs duty waiver on all imports related to nuclear power projects until 2035 to support India's transition to carbon-free baseload power.

- The government proposes to set up an Education to Employment and Entreprises (E2E) Standard Committee to recommend measures to unlock the full potential of the services sector. The committee is also to assess the impact of the emerging technologies inclusive of AI on job and skills requirements.

- The government has proposed to establish a new National Institute of Design to boost design education in wake of the rapid growth of the Indian design industry.

- The Government announced establishment of a National Destination Digital Knowledge Grid to digitally document all places of significance—cultural, spiritual, and heritage.

- The Government proposes to launch Bharat-VISTAAR (Virtually Integrated System to Access Agricultural Resources) a multilingual, AI-powered platform that will integrate AgriStack portals with the ICAR package of agricultural practices. This initiative is intended to improve farm productivity, enable better decision-making by farmers, and mitigate agricultural risks through customised advisory support.

- The Government will consolidate India's leadership in software development, IT-enabled services, knowledge process outsourcing, and contract research and development under a single category titled Information Technology Services. A common safe harbour margin of 15.5% will apply to all IT services, and the eligibility threshold for availing safe harbour has been increased from ₹300 crore to ₹2,000 crore.

Startups & MSMEs

- MSME Growth & Startup Capital ₹10,000 crore SME Growth Fund - Equity support for future MSME champions ₹2,000 crore top-up to Self-Reliant India Fund for micro-enterprises.

- Startup & MSME Liquidity (Trade Receivables Discounting System (TReDS) Reforms) - Mandatory use of TReDS for MSME purchases by Central Public Sector Enterprises. Credit guarantee for invoice discounting via CGTMSE. GeM–TReDS linkage for better financing access. TReDS receivables (asset backed securities) to improve liquidity.

- Professional Support for Startups & MSMEs - ICAI, ICSI, ICMAI to design short modular compliance courses. Create cadre of "Corporate Mitras" focusing on Tier-2 and Tier-3 cities.

- Women-Led Enterprises - She-MARTS to be set up as community-owned retail outlets to help woman transition from credit-linked livelihoods to enterprise ownership.

- E-commerce & Global Market Access - The value cap of ₹10 lakh per consignment on courier exports will be removed to help artisans and startups access global markets. Handling of rejected and returned consignments will be improved with effective use of technology for identifying such consignments.

Health

- Biopharma Shakti - A five-year initiative with a 10,000-crore outlay designed to transform India into a global manufacturing hub for biologics and biosimilars. It intends to address the rising burden of non-communicable diseases, including diabetes, cancer, and autoimmune disorders. Key components of the strategy include:
    - Infrastructure: Establishing three new NIPERs (National Institutes of Pharmaceutical Education and Research) and upgrading seven existing ones.
    - Clinical Research: Creating a network of 1,000 accredited clinical trial sites across India.
    - Regulatory Reform: Strengthening the CDSCO (Central Drug Standard Control Organization) through a dedicated scientific review cadre and specialists to achieve faster, globally aligned approval timelines.

- Allied Health Professionals (AHPs): To upgrade existing AHP institutions and establish new ones, in both private and government sectors across 10 disciplines, including including optometry, radiology, anaesthesia, OT technology, applied psychology, and behavioural health Target: Add 1 lakh AHPs in 5 years.

- Geriatric and allied care system: NSQF aligned programs to train multi-skilled caregivers combining core care and allied skills such as wellness yoga and operation of medical assistive devices1.5 lakh caregivers to be trained this year.

- Medical Value Tourism: Establish 5 regional medical hubs via public-private partnership. These will be integrated health care complexes – integrating medical, education, and research facilities. Medical hubs will have AYUSH centres, medical value tourism centres, and infrastructure for diagnostics, rehabilitation, post-care. This will generate jobs for doctors and allied health professionals.

- AYUSH & Traditional Medicine: Proposal of 3 new All India Institutes of Ayurveda and upgrading the existing AYUSH pharmacies and drug testing laboratories for higher standards – both certification and personnel wise. To upgrade WHO Global Centre for Traditional Medicine (Jamnagar) for evidence-based research and awareness of traditional medicine.

- Mental Health: Establish NIMHANS-2 (North India). Upgrade the National Institute of Mental Health, Ranchi and National Institute of Mental Health, Tezpur.

- Emergency and Trauma Care: To expand emergency & trauma care capacity by 50% capacity in district hospitals by establishing dedicated emergency & trauma care centres.

- Reliefs for Patients suffering from cancer and other rare diseases: Basic customs duty will be waived on 17 medicines to reduce treatment costs, particularly for cancer patients. In addition, seven more rare diseases will be included for duty-free personal imports of medicines and special medical foods used in their treatment.

- TCS rate for education and for medical purposes under the liberalized remittance scheme is proposed to be reduced from 5% to 2%.

Education

- With the help of international expertise and partnerships covering curriculum design, trainer training, etc., five National Centres of Excellence for skilling will be set up. These Centres are expected to equip the youth with the skills required for “Make for India, Make for the World” manufacturing.

- Education to Employment - Enterprise Standing Committee: To form a high-powered committee focused on services sector with the goal of making India a global services leader (10% global share by 2047). Committee to be assess impact of emerging technologies such as AI on skills and employment. Recommend new skilled career pathways.

- University Townships - To support states to create 5 university townships near industrial & logistics corridors. Townships will have universities & colleges, Research institutions, Skill centres and Residential infrastructure.

- Girls’ Hostels - One girls’ hostel in every district, for higher education STEM institutions. Funded via VGF / capital support.

- Science & Astronomy - Set up/upgrade 4 major telescope facilities: National Large Solar Telescope, National Large Optical Infrared Telescope, Himalayan Chandra Telescope and COSMOS-2 Planetarium.

- Creative & Design Education - To support the Indian Institute of Creative Technologies Mumbai in setting up AVGC (Animation, Visual Effects, Gaming, Comics) content creator labs in 15,000 secondary schools all over the country and 500 colleges. To set up a new National Institute of Design in Eastern India.

- Training institutes will be set up as regional centres of excellence for development of required manpower for the proposed 20 new national waterways.

- TCS rate for pursuing education and for medical purposes under the liberalized remittance scheme is proposed to be reduced from 5% to 2%.

Energy

- Battery Storage and Clean Energy Manufacturing - Customs duty exemption on capital goods used for manufacturing Lithium-Ion Cells for Battery Energy Storage Systems (BESS), extending existing benefits earlier limited to EV batteries. This directly supports grid-scale renewable integration and storage-led energy transition.

- Solar Energy Supply Chain - Basic Customs Duty (BCD) exemption on sodium antimonate used in the manufacture of solar glass, strengthening domestic solar manufacturing and reducing import dependence.

- Biogas and Cleaner Fuels - Full exclusion of biogas value when calculating Central Excise duty on biogas-blended CNG, improving commercial viability of compressed biogas (CBG) projects and supporting circular economy objectives.

- Critical Minerals for Energy Transition - Customs duty exemption on capital goods required for processing critical minerals in India, essential for renewables, batteries, and clean-energy technologies. Complemented by incentives for rare earth corridors in mineral-rich states to support downstream clean-energy manufacturing.

- Carbon Management and Decarbonisation of Conventional Energy - Carbon Capture, Utilisation and Storage (CCUS). Allocation of ₹20,000 crore over five years for scaling up CCUS technologies. Targeted at power, steel, cement, refineries, and chemicals, enabling decarbonisation of hard-to-abate sectors rather than abrupt fossil-fuel displacement. Aligned with India's December 2025 CCUS roadmap. to be reduced from 5% to 2%.

- Nuclear Power (Conventional Low-Carbon Energy) - Support for Nuclear Energy Expansion - Extension of BCD exemption on imports for Nuclear Power Projects till 2035. Coverage expanded to all nuclear plants irrespective of capacity, signalling long-term commitment to nuclear as a baseload, low-carbon energy source.

- Power Sector Financing and Institutional Reform - Financial Sector Reforms Affecting Energy - Proposed restructuring of Power Finance Corporation (PFC) and Rural Electrification Corporation (REC) to enhance scale, efficiency, and credit flow to the power sector. Aimed at supporting grid expansion, generation, and electrification objectives.

- Infrastructure and Energy Logistics - Energy-Enabling Infrastructure. Expansion of Dedicated Freight Corridors, inland waterways, and coastal shipping to support movement of coal, minerals, renewable equipment, and industrial inputs with lower carbon intensity. National Waterway-5 explicitly connects mineral-rich regions to ports, supporting energy and industrial supply chains.

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