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# Union Budget 2026

*~A detailed analysis of the highlights~*


Featured by:

JDP

Quality. Collaboration. Innovation

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# Economic Resilience

# Strategic Expansion: India’s Path to 7.2% Growth and Fiscal Consolidation

### 1.Strategic Growth Drivers

The Union Budget signals a definitive pivot from consumption-driven support toward strengthening supply-side capabilities. With domestic demand remaining resilient, the focus has shifted to enhancing productivity and competitiveness to secure long-term growth. This strategy aims to build domestic resilience against global volatility while preparing to meet international demand spurred by upcoming Free Trade Agreements (FTAs).

- **High-End Manufacturing Ecosystems**

The government is prioritizing seven strategic sectors—including semiconductors, bio-pharma, rare earths, and capital goods—marking a shift toward ecosystem-based competitiveness and high-value manufacturing.

- **Diversified Infrastructure & Logistics**

To reduce operational costs and bolster trade efficiency, the budget targets multi-modal infrastructure:

  - **Urbanization:** Targeted development of Tier 2 and Tier 3 cities.
  - **Energy:** Infrastructure designed specifically to support the burgeoning data center industry.
  - **Connectivity:** Strategic investments in dedicated freight corridors, high-speed rail, national waterways, and port-linked manufacturing hubs.

### 2.Fiscal Policy & Capital Expenditure

The government continues to signal fiscal discipline to global investors, balancing aggressive growth with a controlled deficit.

- **Fiscal Consolidation:** The fiscal deficit is projected at 4.3% for FY27, following the achievement of the 4.4% target for FY26. The long-term goal is to reduce national debt to 50% of GDP by 2031, reinforcing investor confidence in expenditure quality.

- **Capital Expenditure (CapEx):** CapEx is set to rise by 11.5% to INR 12.2 trillion in 2026–27. This spending is designed to diversify infrastructure and "crowd-in" private investment through mechanisms like the risk guarantee fund.


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PROPERTY
SALES
STORE
INCOME
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CAPITAL
GIFTS
IMPORTS
DIVIDENDS


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# Direct Tax


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# Personal & Corporate Tax Framework, MACT

The Union Budget 2026–27 serves as the transition point to the Income-tax Act, 2025 (ITA 2025), which replaces the six-decade-old 1961 Act. While the structural framework of the law has been overhauled for simplicity, the core tax rates for individuals and corporates remain largely stable to ensure continuity.

### 1. Entry of ITA 2025

- **Effective Date:** The new Act comes into force on April 1, 2026.
- **Leaner Statute:** The total number of sections has been reduced from over 800 to 536, organized into 23 chapters.
- **Modern Nomenclature:** The confusing distinction between "Previous Year" and "Assessment Year" is abolished and replaced by a unified "Tax Year" (e.g., Tax Year 2026–27).

### 2. Income Slabs & Rates (No Change)

Despite the new Act, the tax slabs and rates for individuals remain identical to those established in Budget 2025. The New Tax Regime remains the default choice.

**Note:** For salaried individuals, the Standard Deduction remains at ₹75,000 under the New Regime. When combined with the Section 87A rebate, individuals with a total income up to ₹12.75 lakh pay zero tax.

### 3. Corporate Taxation

- **Headline Rates:** No change in basic corporate tax rates (22% for existing domestic companies and 15% for new manufacturing companies under the concessional regimes).
- **Transition:** Amendments related to the ITA 2025 apply from Tax Year 2026–27 onwards.

### Motor Accident Claims Tribunal (MACT)

The budget introduces a significant humanitarian amendment regarding compensation awarded by the Motor Accident Claims Tribunal (MACT).

- **Tax Exemption:** Effective April 1, 2026, any interest awarded on compensation to an individual (or their legal heirs) is fully exempt from income tax.
- **No TDS:** Previously, interest exceeding ₹50,000 attracted TDS, often forcing grieving families to file for refunds. Under the new rules, insurance companies will no longer deduct tax at source (TDS) on such interest.
- **Logic:** This recognizes that accident compensation is restorative relief for loss, not "income" in the traditional sense.

# Taxation on Buy-Back of Shares

Effective April 1, 2026, the taxation of share buybacks will undergo a fundamental shift to eliminate tax arbitrage and ensure parity with other forms of capital exits.

### 1. Shift to Capital Gains Regime

- **Current Status:** Buybacks are treated as dividends on a gross basis. While the cost of shares can be claimed as a capital loss, the immediate tax hit is often higher (based on individual slab rates).
- **New Framework:** Buybacks will be taxed as Capital Gains. This is a major benefit for non-promoter shareholders, as it allows for:
    - Deduction of acquisition costs from the buyback proceeds.
    - Reduced tax liability, particularly for Long-Term Capital Gains (LTCG) which typically attract lower rates (e.g., 12.5%).

### 2. Enhanced Tax for 'Promoters'

To discourage the use of buybacks as a tax-saving loophole for major stakeholders, a higher effective tax rate applies to "Promoters". Promoter shareholder subjected to higher tax cost as tabulated under:

| Particulars | Promoter (Domestic Company) | | Promoter (Other than domestic company) | |
|---|---|---|---|---|
| | LTCG ( Listed/Un-Listed) | STCG (Listed) | LTCG ( Listed/Un-Listed) | STCG (Listed) |
| Capital Gains Tax Rate | 12.50% | 20.00% | 12.50% | 20.00% |
| Additional Capital Gains Tax | 9.50% | 2.00% | 17.50% | 10.00% |
| Effective Capital Gains Tax | 22.00% | 22.00% | 30.00% | 30.00% |

### 3. Definition of a 'Promoter'

The budget applies a strict definition to identify stakeholders subject to these higher rates:

- **Listed Shares:** As defined under SEBI (Buyback of Securities) Regulations.
- **Unlisted Shares:** As defined under the Companies Act, or any person/entity holding more than 10% shareholding (directly or indirectly).

# Strategic Exemptions for Technology & Manufacturing

### 1. Exemption on Data Centre Services Income (Valid until 2047)

To attract long-term global investment in digital infrastructure and AI, the government has provided a tax holiday until March 31, 2047, for foreign companies earning income from procuring services from specified Indian data centres.

Eligibility Conditions:

- **Notification:** The foreign company must be specifically notified by the Central Government.
- **Infrastructure:** The foreign company must not own or operate the physical infrastructure or resources of the data centre.
- **Reseller Model:** All sales to users within India must be conducted through an Indian reseller company.
- **MEITY Oversight:** The data centre must be owned/operated by an Indian company, set up under an approved scheme, and notified by the Ministry of Electronics and Information Technology (MEITY).

### 2. Supply of Capital Equipment for Electronic Goods (Valid until FY 2030–31)

To boost "toll manufacturing" and reduce the financial burden on local partners (a major win for companies like Apple), income arising from providing capital goods to Indian contract manufacturers is exempt from tax for a five-year period.

Eligibility Conditions:

- **Ownership:** Legal ownership of the capital goods, equipment, or tooling must remain with the foreign company.
- **Operational Control:** The equipment must be under the direct control and direction of the Indian contract manufacturer.
- **Location:** The contract manufacturer must operate within a customs-bonded area (primarily for export-oriented production).
- **Specified Activity:** The manufacturer must produce electronic goods on behalf of the foreign company for a defined consideration.

# Rationalisation & Compliance Relief

The Union Budget 2026–27 introduces structural changes to the Minimum Alternate Tax (MAT) and significantly eases compliance timelines to reduce litigation and support the transition to the new tax regime.

### 1. Minimum Alternate Tax (MAT) Overhaul

The government is moving toward a simplified corporate tax structure by phasing out the "credit" system and nudging companies toward the concessional tax regime.

- **Rate Reduction:** The MAT rate is reduced to 14% (from 15%).
- **Final Tax Status:** From April 1, 2026, MAT becomes a terminal tax. No fresh MAT credit will be generated for future use.
- **Grandfathering of Credits:** Existing accumulated MAT credits can still be used if a taxpayer switches to the concessional regime (22% or 15% basic rate). However, annual set-offs are capped at 25% of the normal tax liability and must be utilized within the original 15-year window.
- **Exemptions:**
  - **Foreign Companies:** Allowed to utilize their accumulated MAT credit.
  - **Non-Residents:** Fully exempt from MAT if they are paying tax on a presumptive basis (aligning the law with the intent of simplified taxation).

### 2. Expanded Scope for "Updated Returns"

To encourage voluntary compliance and reduce disputes, the window for filing updated returns has been widened:

- **Loss Reduction:** Taxpayers can now file an updated return to reduce a loss claimed in the original filing (previously, this was restricted).
- **Post-Reassessment Filing:** An updated return can now be filed even after a reassessment notice is issued.
- **Cost & Penalty:** Such filings attract an additional 10% levy (on top of existing additional taxes/interest), but once paid, the taxpayer is immune from penalties on that specific income.

### 3. Extended Compliance Timelines

The budget provides more "breathing room" for taxpayers to ensure accuracy in their filings:

- **Business Returns (Non-Audit):** The filing deadline is extended to August 31 (from July 31). This applies to non-audit business cases, partners of firms, and their spouses. The filing deadline for ITR-1 & ITR-2 remains as July 31.
- **Revised Returns:** The window to correct errors is extended from 9 months to 12 months (until March 31 of the assessment year).
  - ***Note:*** *Revisions made after the initial 9-month window (post-December) will incur a nominal fee.*

# Dispute Resolution & Legal Framework

**1. Clarifications on Reassessments and DIN**

To prevent jurisdictional disputes and ensure procedural validity, the budget provides key operational clarifications:

- **Jurisdictional Authority:** Only the Jurisdictional Assessing Officer (JAO) is empowered to conduct pre-reassessment inquiries and issue notices under Section 148. The National Faceless Assessment Centre (NaFAC) and its units are excluded from this specific function.
- **DIN Validity:** An assessment order cannot be invalidated due to minor mistakes or omissions in the Document Identification Number (DIN), provided the order contains a valid DIN reference.
- **Limitation Periods:** It is clarified that statutory time limits apply strictly to the draft order. These timelines do not extend to the final assessment order passed following directions from the Dispute Resolution Panel (DRP).
- **Applicability:** These amendments apply retrospectively under the ITA 1961 and will be effective from April 1, 2026, under the new Income-tax Act, 2025.

2. **Rationalisation of Penalty Provisions**

The budget integrates penalty and assessment proceedings to reduce "multiplicity of litigation":

- **Integrated Orders:** Penalties for underreporting will now be part of the final assessment order itself; no separate proceedings are required.
- **Interest Relief:** No interest will be charged on penalty liabilities until the disposal of the first appeal, regardless of the outcome.
- **Expanded 'Misreporting' Definition:** The scope of misreporting now explicitly includes unexplained credits, investments, assets, or expenditures.
- **Immunity Framework:** Taxpayers can now gain immunity from prosecution even in "misreporting" cases by paying:
    - 100% additional tax for standard misreporting.
    - 120% additional tax specifically for unexplained credits/investments.

**3. Rationalisation of Prosecution (Decriminalisation)**

In a major relief for businesses, several "technical" defaults have been moved away from the criminal justice system:

- **Decriminalised Acts:** Non-production of books, defaults in TDS on "in-kind" transfers, and cases where the tax involved is less than INR 1 million will no longer attract prosecution.
- **Reduced Sentencing:** For remaining offenses, "Rigorous Imprisonment" (which could go up to 7 years) is replaced with Simple Imprisonment (ranging from 6 months to 3 years).
- **Court Discretion:** Courts are now empowered to convert imprisonment into monetary fines for minor offenses.

# Investment Income & Compliance Reforms

The Union Budget 2026–27 continues the theme of procedural simplification while introducing specific measures to curb market speculation. Notably, it eases the tax burden on unexplained income and provides significant relief to employers regarding social security contributions.

### 1. Restriction on Deductions (Dividend & Mutual Funds)

To simplify the tax base, the government has removed the ability to claim expenses against passive investment income:

- **No Deduction for Interest:** Taxpayers can no longer deduct interest expenses incurred to earn dividends or income from mutual fund units (previously allowed up to 20%).
- **No Deduction for Commission:** Commission or remuneration incurred to earn dividend income is also non-deductible.

### 2. Reduced Tax on Unexplained Credits & Assets

In a major move to encourage voluntary disclosure and reduce the severity of penalties for unexplained wealth (under Sections 68, 69, etc.):

- **Tax Rate Cut:** The flat tax rate for unexplained credits, investments, or expenditures is reduced to 30% (down from the existing 60%).
- **Note:** While the base tax is lower, these cases may still attract specific surcharges and penalties under the new "misreporting" framework.

### 3. Relief for Employer Contributions (PF/ESI)

The budget resolves a long-standing compliance pain point for businesses:

- **Revised Timeline:** Deductions for employee contributions to social security schemes (like PF and ESI) are now allowable if paid by the due date of filing the tax return.
- **Previous Rule:** Earlier, even a one-day delay beyond the specific social security law's due date led to a permanent disallowance of the tax deduction.

### 4. Lower Pre-deposit for Tax Appeals

To improve liquidity for taxpayers pursuing appeals:

- **Reduced Deposit:** The mandatory deposit required to secure a stay on tax demand has been halved from 20% to 10% of the tax amount.

# Securities Transaction Tax (STT) Hike

Effective April 1, 2026, the government is significantly increasing STT on derivatives to discourage excessive speculation in the F&O (Futures and Options) segment.

| Instrument | Transaction Type | Old Rate | New Rate (FY27) |
|---|---|---|---|
| Options | Sale of Option (on Premium) | 0.10% | 0.15% |
| Options | Sale of Option (where exercised) | 0.125% | 0.15% |
| Futures | Sale of Futures (on Traded Price) | 0.02% | 0.05% |

# Rationalisation of TCS Rates

The Union Budget 2026–27 (and the new Income-tax Act, 2025) moves toward a more uniform and simplified Tax Collected at Source (TCS) regime. By standardizing many rates at 2%, the government aims to reduce complexity and improve compliance across high-value sectors.

| Particulars | Current Rate | Proposed Rate |
|---|---|---|
| Sale of Alcoholic Liquor for human consumption | 1.00% | 2.00% |
| Sale of Tendu Leaves | 5.00% | 2.00% |
| Sale of Scrap | 1.00% | 2.00% |
| Sale of minerals, being cole, lignite or iron ore | 1.00% | 2.00% |
| Remittance under LRS of an amount or aggregate of the amounts exceed Rs 10 Lakhs | a) 5% (for education and medical treatment)<br>b) 20% for other cases | a) 2% (for education and medical treatment)<br>b) 20% for other cases |
| Sale of "overseas tour programme package" including expenses for travel, hotel stay, boarding, lodging or any other similar expenditure | a) 5% of the amount or aggregate of amounts up to Rs 10 Lakhs<br>b) 20% of the amount or aggregate of amounts exceeding Rs 10 Lakhs | a) 5% of the amount or aggregate of amounts up to Rs 10 Lakhs<br>b) 20% of the amount or aggregate of amounts exceeding Rs 10 Lakhs |

# Rationalisation of TCS Rates

The Union Budget 2026–27 (and the new Income-tax Act, 2025) transitions several technical penalties into a "fee-based" structure. This shift, effective April 1, 2026, aims to replace discretionary penalties with predictable, fixed charges for administrative lapses.

| Particulars | Current Fee | Proposed Fee |
|---|---|---|
| Revision of original return (post 31st December) and return not filed by due date | No | Rs 1,000 (in case total income does not exceed Rs 5,00,000)<br>Rs 5,000 (in any other case) |
| Failure to get accounts audited and furnish a tax audit report by an accountant | 0.5% of total sales, turnover, or gross receipts in business, or gross receipts in profession or Rs 1,50,000, whichever is less (irrespective of delay | Rs 75,000 (for delay upto 1 month)<br>Rs 1,50,000 (for delay exceeding 1 month) |
| Failure to furnish a statement of financial transaction/reportable account | Rs 500 per day | Rs 200 per day, max up to Rs 1,00,000 |
| Failure to furnish information or inaccurate information on a crypto asset | No | Rs 200 per day for the delay in furnishing<br>Rs 50,000 for inaccurate reporting and failure to remove such inaccuracy; or failure to comply with due diligence requirements |
| Failure to furnish SFT (after issuance of notice) | Rs 1,000 per day | Rs 1,000 per day, subject to a maximum of Rs 1,00,000 |
| Failure to furnish information required by tax authorities (in case of a survey) | Rs 1,000 | Rs 25,000 |

# Transfer Pricing: Safe Harbour & APA

The Union Budget 2026–27 (and the new Income-tax Act, 2025) introduces significant reforms to Transfer Pricing (TP) and the Advance Pricing Agreement (APA) framework. These changes aim to reduce the "litigation tax" on Global Capability Centres (GCCs) and provide a fast-track route to tax certainty.

### 1. Unified Safe Harbour for IT Services

To eliminate classification disputes, the government has consolidated various tech sub-sectors into a single category with a lower, uniform margin.

- **Consolidated Category:** Software development, ITeS, KPO, and contract R&D are now simply "Information Technology Services."
- **New Margin:** A common safe harbour margin of 15.5% is proposed (replacing the previous tiered rates of 17–24%).
- **Enhanced Threshold:** The eligibility limit for choosing safe harbour is hiked significantly from INR 3 billion to INR 20 billion (₹2,000 Crore).
- **Automated Governance:** Approvals will now be rule-based and automated, valid for a block of five years, removing the need for officer-level scrutiny.

### 2. Expansion to Data Centres & Warehousing

- **Data Centres:** Related-party data centre services are now eligible for a 15% safe harbour margin (complementing the 2047 tax holiday).
- **Electronics Warehousing:** To support supply chain efficiency, non-residents using bonded warehouses for electronic components can opt for a safe harbour profit margin of 2% of the invoice value.

### 3. Fast-Track Advance Pricing Agreements (APAs)

For large-scale operations exceeding the safe harbour threshold, the APA process is being streamlined:

- **Two-Year Target:** The government aims to conclude Unilateral APAs within 24 months (extendable by 6 months upon taxpayer request).
- **Refund Mechanism:** A significant procedural update allows Modified Returns to be filed by Associated Entities (AEs) to claim refunds of additional or withholding taxes following an APA conclusion.
  - Effective for APAs concluded on or after April 1, 2026.

# Transfer Pricing: Safe Harbour & APA

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### 4. Precision in Timelines

- TP Orders: Specific due dates have been introduced to remove ambiguity regarding when a Transfer Pricing Officer (TPO) must issue an order, ensuring better synchronization with the final assessment timelines.

### 5. Penalty-to-Fee Transition

The discretionary penalty for failing to furnish a Transfer Pricing Audit Report (Form 3CEB) is replaced by a mandatory, graded fee:

- **Delay up to one month:** Rs 50,000.
- **Delay exceeding one month:** Rs 1,00,000.

# Amnesty for Foreign Asset Disclosure

The FAST-DS-2026 provides a one-time, six-month window for taxpayers to declare previously unreported foreign assets and foreign-sourced income. It is specifically aimed at resolving cases that have escaped assessment due to non-filing of ITRs or accidental omissions in Schedule FA.

### 1. Tiered Compliance Framework

The scheme categorizes declarations based on the nature of the non-disclosure:

- Taxpayers would need to pay the total tax and penalty of 60 percent on the value of undisclosed foreign assets as on 31 March 2026 and the amount of undisclosed foreign income (subject to the aggregate value of the undisclosed foreign assets and income not exceeding INR10 million).
- However, if such assets were acquired from income accruing outside India when the taxpayer was a non-resident or out of income taxed in India, only a fee of INR0.1 million is payable instead of any tax and penalty (subject to the value of the undisclosed foreign assets not exceeding INR50 millio

### 2. Key Legal Protections

- **Immunity:** Successful declarants receive statutory immunity from further tax, penalties, and prosecution under the Black Money Act (BMA) for the declared items.
- **Valuation Date:** For Category A, the value of undisclosed assets will be determined as of March 31, 2026.
- **Exclusions:** The scheme does not apply to assets representing proceeds of crime or cases where BMA assessments/prosecutions are already completed.

### Decriminalization of Small Foreign Assets

Recognizing that many small taxpayers (like students or short-term expats) may hold modest foreign balances, the government has moved to remove the "criminal" stigma from minor reporting errors.

- **Retrospective Relief:** Effective retrospectively from October 1, 2024, no prosecution will be initiated for the non-disclosure of movable foreign assets (e.g., bank balances, shares) if the aggregate value does not exceed ₹2 million (₹20 Lakh).
- **Alignment with Penalty Norms:** This aligns prosecution rules with the existing relief that already waived the ₹10 lakh penalty for such small-value assets.
- **Scope:** This relief applies to movable assets only; immovable property (like foreign real estate) remains subject to standard BMA provisions regardless of value.

# Simplify Investment Experience for Domestic & Foreign Investors

The Union Budget 2026–27 (under the new Income-tax Act, 2025) introduces two significant measures aimed at attracting global expertise and simplifying the investment experience for domestic and foreign investors.

### 1. Tax Exemption for Visiting Foreign Experts

To encourage the influx of global talent—particularly in high-tech sectors like semiconductors, AI, and biopharma—the government has introduced a 5-year "ring-fencing" of foreign income.

- **The Benefit:** Foreign-sourced income (e.g., rental income from abroad, foreign dividends, or capital gains) is completely exempt from tax in India for five consecutive tax years.
- **Scope:** Only income earned in India for services rendered under a notified government scheme (like the Semiconductor Mission) remains taxable in India.
- **Eligibility Conditions:**
  - The individual must be working on a scheme notified by the Central Government.
  - The individual must have been a non-resident for five consecutive tax years immediately preceding the year of their first visit for the scheme.
- **Strategic Intent:** This prevents a "tax trap" where global experts might otherwise become "Resident but Not Ordinarily Resident" (RNOR) or full residents, inadvertently exposing their global wealth to Indian taxation.

### 2. NIL Withholding via Depository Declaration

To reduce the administrative burden on investors and eliminate the need for claiming tedious tax refunds, the government is centralizing the "NIL Withholding" process.

- **The Change:** Investors will no longer need to approach individual companies or mutual funds to submit Form 15G/15H for every investment.
- **The Process:** Investors can file a single consolidated declaration with their Depository (NSDL/CDSL).
- **Automatic Flow:** The Depository will then electronically transmit this declaration to all relevant:
  - Mutual Funds (for income from units)
  - Issuer Companies (for dividends on listed shares and interest on listed securities)
- **Effective Date:** This system-driven simplification is proposed to be effective from April 1, 2027, allowing time for the technological integration between depositories and tax deductors.



# Indirect Tax

# Goods & Service Tax - Proposals

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The Union Budget 2026–27 (and the Finance Bill, 2026) introduces two landmark Indirect Tax reforms that resolve long-standing disputes and bring Indian GST laws closer to international commercial practices.

### 1. Intermediary Services: Shift to Recipient-Based Taxation

For years, Indian service providers (brokers, agents, BPOs, and GCCs) were at a disadvantage because the "Place of Supply" (PoS) for their services was deemed to be India, even if the client was located abroad.

- **The Change:** Clause (b) of Section 13(8) of the IGST Act is being omitted.
- **New Determination:** The PoS will now be determined by the default rule (Section 13(2)), which is the location of the service recipient.
- **Zero-Rating Benefits:** Since the PoS for foreign clients will now be outside India, these services will qualify as "Export of Services." This means:
  - 18% GST Burden Removed: Indian intermediaries can now offer services without charging GST.
  - Refund Eligibility: They can claim a refund for the Input Tax Credit (ITC) accumulated on their business expenses.
- **Neutrality for Imports:** Conversely, intermediary services received from abroad will now attract GST under the Reverse Charge Mechanism (RCM), ensuring a level playing field.
- **Date of Effect:** From the date of enactment of the Finance Bill, 2026.

### 2. Liberalization of Post-Supply Discounts

The rigid requirement for linking every discount to a pre-existing agreement and a specific invoice has been a major compliance bottleneck, particularly for the FMCG and Pharma sectors.

- **The Change:** Sections 15(3)(b) and 34 of the CGST Act are being amended to decouple discounts from prior agreements and specific invoices.
- **Key Provisions:**
  - **No Prior Agreement Needed:** Businesses can now issue "commercial" or "performance" discounts after the sale has occurred, even if they weren't explicitly documented at the time of the transaction.
  - **No Invoice-Linking:** The "one-to-one" linking of a credit note to an original invoice is no longer mandatory.
- **Mandatory Safeguard:** To reduce the supplier's tax liability, the recipient must reverse the corresponding Input Tax Credit (ITC).
- **Commercial Flexibility:** This allows for year-end rebates, volume-based incentives, and turnover discounts to be processed seamlessly through simple Credit Notes.
- **Date of Effect:** Yet to be notified (expected after technological updates to the GST portal).

# Goods & Service Tax - Proposals

The Union Budget 2026–27 (and the Finance Bill, 2026) aims to resolve the liquidity crunch for manufacturing sectors and eliminate legal deadlocks in the advance ruling process. These reforms are particularly critical for industries with complex supply chains like pharmaceuticals and textiles.

### 1. Extension of 90% Provisional Refund to IDS Cases

Currently, the privilege of receiving a 90% "upfront" refund within 7 days is largely restricted to zero-rated supplies (exports and SEZ). The budget now extends this to the Inverted Duty Structure (IDS).

- **The Problem:** IDS occurs when the GST rate on inputs (e.g., raw materials at 18%) is higher than the GST rate on finished goods (e.g., medicines or garments at 5% or 12%). This leads to a massive accumulation of unutilized Input Tax Credit (ITC), "locking" the company's working capital.
- **The Reform:** Under the amended Section 54(6), businesses facing IDS can now claim a 90% provisional refund immediately after an initial scrutiny of their application.
- **Cash Flow Impact:** * Pharma/FMCG/Textiles: These sectors often operate on thin margins and high volumes; getting 90% of their stuck credit back in days rather than months will significantly lower interest costs and boost liquidity.
- **Date of Effect:** Yet to be notified (awaiting GST portal updates).

### 2. Interim Arrangement for National Appellate Authority (NAAAR)

The National Appellate Authority for Advance Ruling (NAAAR) was created to resolve "conflicting rulings"—cases where the Appellate Authorities of two different states give different tax verdicts for the same business entity. However, the NAAAR has faced delays in becoming operational.

- **The Reform:** A new sub-section in Section 101A empowers the Government to notify an existing authority (such as the GST Appellate Tribunal or another judicial body) to act as the NAAAR in the interim.
- **Key Benefits:**
  - Conflict Resolution: If a company has registrations in both Maharashtra and Karnataka and receives two different tax rulings, it now has a functioning forum to seek a single, definitive answer.
  - Reduced Backlog: Prevents cases from being stuck in "legal limbo" due to the lack of a constituted national body.
- **Date of Effect:** April 1, 2026.

# Changes to Central Excise and SEZ

The Union Budget 2026–27 introduces significant changes to Central Excise and Special Economic Zones (SEZ), prioritizing the green energy transition and providing relief to exporters facing global trade disruptions.

**1. Tobacco Products: Revision of NCCD Rates**

To align with public health goals while maintaining revenue stability, the government has restructured the National Calamity Contingent Duty (NCCD).

- **The Change:** The statutory NCCD rates on chewing tobacco, jarda, and other smokeless tobacco products have been hiked from 25% to 60%.
- **The Effective Reality:** Despite the high statutory rate, a partial exemption has been granted to keep the effective duty at 25%. This provides the government with a "ready-to-use" fiscal lever to increase taxes in the future without needing a new Finance Bill.
- **Date of Effect:** May 1, 2026.

**2. Biogas: Excise Exemption for Blended CNG**

In a major push for the SATAT (Sustainable Alternative Towards Affordable Transportation) scheme, the government has moved from a partial to a full excise exemption for biogas.

- **The New Rule:** The entire value of Biogas or Compressed Biogas (CBG) contained in a CNG blend is now excluded from the transaction value for excise duty.
- **Previous Gap:** Earlier, only the GST paid on biogas was excluded, leading to "double taxation" on the base value.
- **Impact:** If a fuel outlet sells a 10% CBG-90% CNG blend, only the 90% natural gas portion attracts the 14% excise duty. This significantly lowers the cost of production for City Gas Distribution (CGD) companies.
- **Date of Effect:** February 2, 2026..

# Changes to Central Excise and SEZ

### 3. Unblended Diesel: Deferment of Penalty Duty

To avoid immediate inflationary pressure on the logistics and transport sectors, the government has extended the "grace period" for fuel retailers to transition to blended diesel.

- **The Deferment:** The additional excise duty of ₹2 per litre on unblended high-speed diesel (HSD) has been pushed back.
- **Revised Timeline:** The levy is now deferred until March 31, 2028 (previously scheduled for April 2026).
- **Logic:** This gives oil marketing companies more time to build the necessary infrastructure for large-scale biodiesel blending.

### 4. SEZ: Strategic Relief for Manufacturing Units

Due to global trade disruptions and high tariffs in export markets (like the US), many SEZ units are struggling with unutilized capacity.

- **The Proposal:** Eligible manufacturing units in SEZs will be allowed a special one-time measure to sell their goods in the Domestic Tariff Area (DTA)—the local Indian market—at concessional rates of duty.
- **Conditions:** * Proportionate Cap: Sales will be limited to a specific proportion of the unit's actual exports.
    - **Level Playing Field:** Regulatory changes will ensure that these concessions do not unfairly disadvantage domestic manufacturers outside the SEZ.
- **Strategic Goal:** This facilitates "Import Substitution"—encouraging Indian buyers to source from local SEZs instead of importing from countries like Vietnam or Bangladesh.

# Overhaul of Customs Process

### 1. Authorised Economic Operator (AEO) Ecosystem

To encourage more manufacturers to join the trusted-trader pool, the government has significantly enhanced liquidity and operational benefits for AEO-accredited firms.

- **Doubling Duty Deferral:** Tier-2 and Tier-3 AEOs now enjoy a 30-day duty deferral period, up from 15 days. This provides an additional month of working capital to high-compliant importers.
- **New "Eligible Manufacturer-Importer" Category:** This facility is now extended to manufacturer-importers who are not yet full AEOs, provided they meet specific eligibility criteria. This benefit is valid until March 31, 2028, acting as a "bridge" to encourage them to attain full Tier-3 AEO status.
- **Risk-Based Facilitation:** Trusted traders with long-standing supply chains will face minimal cargo verification, with systems moving toward automatic clearance upon the arrival of goods.

### 2. Transformative Warehousing Framework

A landmark amendment to Section 67 of the Customs Act, 1962 removes one of the biggest procedural hurdles in logistics.

- **Removal of Prior Approvals:** Importers no longer need a customs officer's permission to move goods between two bonded warehouses.
- **Operator-Centric System:** The system now relies on self-declarations and electronic tracking. Instead of manual approvals, the department will use risk-based audits to ensure compliance.
- **Impact:** This drastically reduces port dwell time and administrative delays, allowing businesses to move inventory based on market demand rather than bureaucratic timelines.

### 3. Digital Single Window & System Integration

The budget sets a clear, time-bound roadmap for the complete digitization of cross-border trade.

- **Interconnected Single Window:** By the end of FY 2026–27, all Participating Government Agencies (PGAs) like FSSAI (food), CDSCO (drugs), and Animal/Plant Quarantine will be integrated into a single digital interface.
- **The "April 2026" Milestone:** Clearances for food, drugs, plants, animals, and wildlife—which account for 70% of interdicted cargo—will be operationalized on this system by April 2026.
- **Customs Integrated System (CIS):** A new, scalable, and unified platform for all customs processes will be rolled out over the next two years.
- **AI-Driven Scanning:** The government aims to scan every container across all major ports using non-intrusive imaging and Artificial Intelligence for risk assessment.

# Overhaul of Customs Process

The Union Budget 2026–27 (and the newly notified Baggage Rules, 2026) marks a pivot toward "invisible" border management. By removing legacy value caps and automating clearance for trusted players, the government is repositioning India as a competitive global logistics hub.

### 1. Cargo Clearance & Risk Management Reforms

The budget accelerates the "Contactless Customs" initiative by moving from manual intervention to AI-driven automated flows.

- **"Auto-Goods Registration" & "Auto-Out-of-Charge":** For imports that do not require specific regulatory compliance (e.g., from FSSAI or PQ), the system will automatically grant clearance upon the filing of the Bill of Entry and payment of duty.
- **ICEGATE E-Scheduling:** Importers can now use a system-based application to e-schedule physical examinations, eliminating the need for manual coordination with customs officers.
- **Eligibility for Fast-Track:** These facilities are specifically extended to:
    - AEO Tier 2 & Tier 3 entities.
    - Approved eligible manufacturer-importers.
    - Importers with a long-standing supply chain and those using Direct Port Delivery (DPD).
- **AI-Enabled Scanning:** Non-intrusive inspection (NII) technologies, including AI-driven high-energy scanners, will be expanded across all major ports to ensure 100% container scanning without slowing down throughput.

### 2. Courier, E-commerce & Baggage Facilitation

Small businesses and individual travelers are the primary beneficiaries of the 2026 procedural updates.

**The "Jewellery & Artisan" Boost**

- **Removal of Value Cap:** The long-standing ₹1 million (₹10 lakh) per consignment limit for courier exports has been completely removed. MSMEs and D2C brands can now ship high-value items (like luxury jewelry or high-end electronics) via courier channels, which are significantly faster and more efficient than traditional cargo.
- **Streamlined Returns:** A new risk-based framework for "Return to Origin" (RTO) and rejected e-commerce exports will prevent returned goods from being erroneously taxed as fresh imports.

**New Baggage Rules, 2026**

Effective February 2, 2026, the government has updated duty-free allowances to reflect modern travel patterns.

# Overhaul of Customs Process

### New Baggage Rules, 2026

Effective February 2, 2026, the government has updated duty-free allowances to reflect modern travel patterns.

| Passenger Category | Old Allowance | New Allowance |
|---|---|---|
| Indian Resident / Tourist of Indian Origin | Rs 50,000 | Rs 75,000 |
| Foreign Tourist | Rs 15,000 | Rs 25,000 |
| Jewellery (Female) | 40 grams | 40 grams |
| Jewellery (Male) | 20 grams | 20 grams |

### 3. Legal Certainty: Advance Rulings

To provide long-term predictability for global supply chains:

- **Extended Validity:** The validity of Customs Advance Rulings has been increased from three years to five years.
- **Transition:** For rulings currently in force, the Authority can extend the validity to the full five-year term upon a simple request from the applicant.

# Customs Updates

| Description of goods | Up to 1 February | From 2 February |
| --- | --- | --- |
| **Renewable Energy** | | |
| Specified capital goods for manufacture of lithium-ioncells for BESS | As Applicable | Nil |
| Sodium antimonate for use in manufacture of solar glass | 7.50% | Nil |
| **Aviation** | | |
| Components/parts, including engines of aircraft for manufacture of aircraft or parts thereof | As Applicable | Nil |
| **Defense Sector** | | |
| Raw materials for the manufacture of parts of aircraft for maintenance, repair or overhauling of aircraft or components or parts thereof imported by PSU under the Ministry of Defence | As Applicable | Nil |
| **Drugs & Medicines** | | |
| 17 Specified drugs/medicines | As Applicable | Nil |
| Drugs & Medicines used for treatment of specified 7 rare diseases when imported for personal use | As Applicable | Nil |
| **Electronics** | | |
| AC motor, transformers, electric heating resistors and other specified goods for use in the manufacture of microwave ovens | As Applicable | Nil |

# Customs Updates

| Description of goods | Up to 1 February | From 2 February |
|---|---|---|
| **Nuclear Energy** | | |
| Specified goods for the generation of nuclear power, including control and protector,absorber rods and burnable absorbable rods | 7.50% | Nil |
| Specified goods for the generation of nuclear power, including control and protector,absorber rods and burnable absorbable rods | As Applicable | Nil |
| **Critical Minerals** | | |
| Monazite | 2.50% | Nil |

# Customs Updates

| Particulars | Key Changes |
|---|---|
| **BCD**<br>Notification No. 45/2025 - CT dated 24.10.2025 | **Entries to be discontinued w.e.f. 31.03.2026**<br>22 entries spanning sectors such as medical devices, electronics and electrical equipment have been allowed to lapse. |
| | **Extension of entries until 31.03.2028**<br>100 two major concessional-duty benefits extended across agriculture, metals, renewables, electronics, healthcare, textiles, aviation, energy, machinery and gems |


# Policy Reforms

# Creating Industrial Strategy 2.0

The Union Budget 2026–27 presents Industrial Strategy 2.0, a comprehensive roadmap to shift India from a volume-based manufacturer to a high-value, innovation-driven economy. This phase focuses on "Frontier Sectors" such as semiconductors, biopharma, and critical minerals while rejuvenating urban and industrial clusters.

### 1. Biopharma SHAKTI: Transitioning from Generics to Biologics

The government has allocated ₹100 billion (₹10,000 crore) over five years for the Strategy for Healthcare Advancement through Knowledge, Technology, and Innovation (SHAKTI).

- **Goal:** Moving India beyond its reputation as the "world's pharmacy" for generic drugs to a global leader in Biologics and Biosimilars.
- **Clinical Trial Network:** Establishing 1,000+ accredited clinical trial sites to address the historical fragmentation of India's research ecosystem.
- **Regulatory Upgrade:** The CDSCO will be bolstered with a dedicated "scientific review cadre" to slash approval timelines and align with global standards (like the USFDA).
- **NIPER Expansion:** Three new National Institutes of Pharmaceutical Education and Research (NIPERs) will be established, and seven existing ones upgraded to focus purely on biopharma innovation.

### 2. India Semiconductor Mission (ISM) 2.0

Building on the foundation of ISM 1.0, the second phase focuses on creating an indigenous "full-stack" ecosystem.

- **Budget Outlay:** Increased for the Electronics Components Manufacturing Scheme (ECMS) from ₹229.19 billion to ₹400 billion.
- **Focus Areas:** * Production of equipment and materials (reducing reliance on imported lithography and chemicals).
    - Development of Indian Intellectual Property (IP) for chip design.
    - Industry-led R&D and specialized skilling to meet the demand for 1.2 million semiconductor professionals by 2030.

# Creating Industrial Strategy 2.0

### 3. Rare Earth & Chemical Corridors

To secure the supply chain for EV motors, wind turbines, and defense systems, the budget focuses on "Critical Mineral Security."

- **Rare Earth Corridors:** Dedicated corridors in Odisha, Kerala, Andhra Pradesh, and Tamil Nadu will integrate mining (primarily monazite sands) with processing and permanent magnet manufacturing.
- **Chemical Parks:** Three dedicated parks will be set up via a "Plug-and-Play" model, allowing manufacturers to start operations immediately with pre-approved infrastructure.
- **Capital Goods:** Two hi-tech tool rooms will be established by CPSEs to manufacture high-precision components (like metro tunnel-boring parts) locally.

### 4. Urban Transformation: City Economic Regions (CERs)

The budget reimagines cities not just as residential hubs, but as Growth Engines.

- **Challenge Mode:** ₹50 billion is allocated to develop 7 CERs (including Varanasi, Surat, and Visakhapatnam) where funding is linked to reforms and measurable economic results.
- **High-Speed Rail:** Seven corridors (e.g., Mumbai-Pune, Delhi-Varanasi) will act as "Growth Connectors," enabling rapid passenger and light-cargo movement between industrial hubs.

# Championing Small & Medium Enterprises

The Union Budget 2026–27 establishes a "Champion SME" framework, moving away from simple subsidies to high-impact equity infusion and system-driven liquidity. This shift is designed to transform MSMEs from survival-mode entities into scalable, globally competitive "Champions."

### 1. Equity & Growth Support

The government is creating a multi-layered funding pool to help MSMEs bridge the "missing middle"—where they are too big for micro-loans but too small for major venture capital.

- **SME Growth Fund:** A new ₹10,000 crore fund dedicated to creating "future champions." This fund will prioritize enterprises that show high potential in productivity, formalization, and export readiness.
- **Self-Reliant India (SRI) Fund Top-up:** The fund-of-funds, which provides daughter-fund equity, has been topped up with ₹2,000 crore to ensure micro-enterprises have continued access to risk capital.

### 2. Liquidity & The TReDS Revolution

Delayed payments are the biggest hurdle for MSMEs. The 2026 Budget makes the Trade Receivables Discounting System (TReDS) the mandatory backbone of India's business-to-government (B2G) payments.

- **Mandatory CPSE Onboarding:** All Central Public Sector Enterprises (CPSEs) must now use TReDS for 100% of their MSME purchases. This sets a benchmark for the private sector to follow.
- **Invoice Securitization (ABS):** In a structural reform, TReDS receivables will now be treated as Asset-Backed Securities. This creates a secondary market where banks can bundle and sell these verified invoices to institutional investors, unlocking deeper liquidity.
- **GeM-TReDS Integration:** By linking the Government e-Marketplace (GeM) with TReDS, financiers can now see verified government purchase orders, leading to cheaper and faster interest rates for MSME suppliers.
- **Credit Guarantee on Invoices:** The CGTMSE will now provide a guarantee for unpaid invoices on the TReDS platform, reducing the risk for banks and increasing the "discounting" success rate.

### 3. Professional Support: The 'Corporate Mitra'

Recognizing that compliance is often a "hidden tax" for small businesses in non-metro areas, the government is creating a new professional cadre.

- **What is a Corporate Mitra?** A trained para-professional who helps MSMEs with GST filings, legal formalities, and credit applications at an affordable, standardized cost.
- **Training Institutions:** The ICAI, ICSI, and ICMAI will design short-term modular courses to develop this cadre.
- **Focus Area:** Deployment will be concentrated in Tier-II and Tier-III cities to bridge the professional advisory gap.

# Financial Sector Reforms

The Union Budget 2026–27 outlines a structural overhaul of the financial sector to support the Vikasit Bharat (Developed India) vision. The strategy shifts from simple stability to "scale and efficiency," specifically targeting banking, foreign capital, and specialized infrastructure financing.

### 1. High-Level Committee on Banking for Viksit Bharat

A high-level committee is being established to prepare the Indian banking sector for its next phase of global competitiveness.

- **Core Mandate:** The committee will assess the current ownership structures, voting rights of promoters (currently capped at 26%), and the feasibility of creating "fewer but larger" banks with massive balance sheets.
- **Foreign Participation:** It is expected to review the 20% FDI cap in public sector banks and establish a uniform framework for foreign ownership in private banks, replacing the current case-by-case approval system.
- **Modernisation:** Recommendations will focus on aligning credit delivery with new-age technology and changing deposit patterns.

### 2. Reforms in Foreign Exchange Management (FEMA)

To position India as a "global investment destination," the budget proposes a contemporary and user-friendly update to the Foreign Exchange Management (Non-Debt Instruments) Rules. This involves a structural shift to attract "Patient Capital" from high-net-worth individuals and family offices globally, reducing dependence on volatile institutional flows.

- **Doubling the Individual Cap:** For the first time, individual Persons Resident Outside India (PROIs)—including foreign nationals, NRIs, and OCIs—can invest up to 10% of the paid-up equity capital of a listed Indian company, up from the previous 5%.
- **Expanding Aggregate Headroom:** The combined investment limit for all individual PROIs in a single company has been significantly raised to 24% (previously capped at 10%).
- **Procedural Easing:** The Portfolio Investment Scheme (PIS) will be modernized to provide a simpler, regulated route to Indian equities without the heavy registration and Net Worth hurdles typical of the FPI route.

### 3. Deepening the Bond Market

The budget introduces fiscal incentives and new financial instruments to bridge the infrastructure funding gap.

- **Municipal Bond Incentive:** An incentive of ₹1 billion (₹100 Crore) is proposed for a single standalone issuance exceeding ₹10 billion (₹1,000 Crore).
  - **Note:** The existing AMRUT scheme for smaller towns (up to ₹200 Cr issuances) will continue alongside.
- **Corporate Bond Liquidity:** * Market Making: A new framework will provide market makers with access to funds to ensure there are always buyers and sellers for corporate debt.
  - **Total Return Swaps (TRS):** Introduction of TRS on corporate and municipal bonds to allow investors to hedge risks or gain synthetic exposure.

### 4. Restructuring Public Sector NBFCs (PFC & REC)

To sharpen the focus on energy transition and infrastructure, the government has announced the restructuring of Power Finance Corporation (PFC) and REC Ltd.

- **The Goal:** Achieving massive scale and operational efficiency by setting clear technology-led targets for credit disbursement.
- **Consolidation Buzz:** While a full merger was previously stalled by RBI's project-lending caps, the "restructuring" signals a move toward a more integrated strategy to support India's 2070 Net-Zero goal and green hydrogen infrastructure.

# Service-driven Employment Growth

Quality. Collaboration. Innovation

The Union Budget 2026–27 places the Services Sector at the heart of India's economic strategy, aiming for a 10% global share by 2047. The shift moves from basic infrastructure to a "high-tech, human-centric" model that integrates AI into education while scaling up India's wellness and creative economies.

### 1. Education to Employment and Enterprise (EEE)

A high-powered standing committee has been proposed to bridge the gap between classroom learning and real-world entrepreneurship.

- **The Mandate:** Identify high-growth service sub-sectors and assess how AI and emerging technologies will reshape skill requirements.
- **Goal:** To ensure the Indian workforce isn't just "employable" but can lead "enterprises" in a global services market.
- **AI Integration:** The committee will suggest measures to integrate AI into school curricula and reskill existing engineers and tech professionals.

### 2. Building a Global Wellness Hub

The government is doubling down on Medical Value Tourism (MVT), leveraging India's unique position in both modern and traditional medicine.

- **Allied Health Professionals (AHPs):** To support the doctor-patient ratio, new institutions will be established to train experts in 10 selected disciplines.
- **Caregiver Economy:** 150,000 caregivers will be trained in wellness, yoga, and medical device operation under NSQF-aligned programs.
- **Regional Medical Hubs:** Five regional hubs will be set up via a challenge route, integrating diagnostics, research, and AYUSH centers.
- **Ayurveda Expansion:** Three new All India Institutes of Ayurveda will be established to meet the post-COVID global demand for traditional medicine.

# Service-driven Employment Growth

### 3. The "Orange Economy" & Creative Tech

The AVGC (Animation, Visual Effects, Gaming, and Comics) sector is recognized as a major job engine, projected to need 2 million professionals by 2030.

- **Content Creator Labs:** In a massive grassroots push, the Indian Institute of Creative Technologies (IICT), Mumbai, will set up labs in 15,000 secondary schools and 500 colleges.
- **National Institute of Design (NID):** A new NID will be established in the Eastern Region through a challenge route to address the acute shortage of industrial and service designers.

### 4. Tourism & Hospitality Reimagined

The budget shifts tourism from "sightseeing" to "experience-led" growth.

- **National Institute of Hospitality:** The existing NCHMCT will be upgraded into a premier institute to act as a bridge between industry and academia.
- **Guide Upskilling:** A pilot scheme will train 10,000 guides at 20 iconic sites (such as Hampi, Sarnath, and Leh Palace) through a 12-week hybrid course designed by an IIM.
- **Digital Knowledge Grid:** A national grid will digitally document cultural and spiritual sites, creating jobs for local researchers, historians, and digital content creators.

# ABOUT US

J D P & Co is a top-tier professional services firm specializing in Audit, Tax, FEMA, and corporate law matters, committed to delivering premium-quality services to our clients.

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# Thank You

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