

# India's Union budget 2026-27



# Macro Fiscal

**Growth:** The Economic Survey (FY26) projected a real GDP growth in the range of **6.8% to 7.2% for FY26.**

## Revenue highlights:

- Gross Tax Revenue (GTR) growth in FY27 (BE) is budgeted at 8% over FY26 (RE), indicating a fall in buoyancy from 0.9 to 0.8 over the corresponding period.
- Direct tax growth is budgeted at 11.4% in FY27 (BE) over FY26 (RE).
- Indirect tax growth is budgeted at only 3% in FY27 (BE) over FY26 (RE) – mainly attributable to a contraction in GST revenues.

## Assignment to states:

Growth in assignments to states is budgeted at 9.6% in FY27 (BE) compared to FY26 (RE).

## Expenditure priorities:

- Infrastructure investment: Gol's capital expenditure has been kept at EUR 116.2 billion for FY27 (BE), amounting to 3.1% of GDP.
- Revenue expenditure growth is budgeted at 6.6% in FY27 (BE) over FY26 (RE).

## Continuing focus on fiscal consolidation:

- The fiscal deficit to GDP ratio is budgeted to fall to 4.3% of GDP in FY27 (BE) from 4.4% in FY26 (RE).
- The stated target is to reduce the debt-to-GDP ratio from the estimated level of 56.1% in FY26 (RE) to 55.6% in FY27 and further to 50% ± 1% by FY31.
- The Budget pursues a balance between pursuing fiscal consolidation and sustaining growth.

**Capital Expenditure (FY27 (BE))**  
**EUR 116.2 Billion**  
(3.1% of GDP)



**4.3%**

Fiscal deficit to GDP ratio for FY27 (BE)



**50% ± 1%**

Targeted debt-to-GDP ratio by FY31

# Policy (1/2)

## Scaling up manufacturing in seven strategic and frontier sectors:

### Revenue highlights:

- **Biopharma:** Biopharma SHAKTI with an outlay of EUR 950 million over the next the five years.
- **Semiconductors:** Semiconductor Mission 2.0 to expand India's capability in the semiconductor sector.
- **Electronics components:** Increase outlay to EUR 3,81 billion for Electronics Components Manufacturing Scheme.
- **Rare earth magnets:** Dedicated rare earth corridors to promote mining, processing, research and manufacturing.
- **Chemicals:** Three dedicated chemical parks.

- **Capital goods:** Scheme for construction equipment and containers.
- **Textile:** Self-reliance in natural fibers along with the Textile Expansion and Employment Scheme and a National Handloom and Handicraft Programme.
- **Support for MSMEs:** MSMEs will be supported through an SME Growth Fund and professional institutions providing compliance support.
- **Continued infrastructure push:** An Infrastructure Risk Guarantee Fund will be set up. Dedicated freight corridors and 20 new waterways will be operationalised. Seven high-speed rail corridors between cities to be developed as 'growth connectors'.



**EUR 952 Million**  
SME Growth Fund



**EUR 3.81 Billion**  
Electronics Component Scheme

## Policy (2/2)

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



**EUR 1.90 Billion**  
 Carbon Capture Utilization & Storage (CCUS)



**EUR 3.81 Billion**  
 For each City Economic Region (CER) over 5 years

# Corporate Tax (1/5)

## Tax rate for units in the International Financial Services Centre (IFSC) on income earned after the tax holiday period:

- Eligible business income of units in IFSC will now be taxed at 15% instead of the 22% or 30% rate applicable to income earned after the tax holiday period. This is applicable from tax year 2026-27.

## Changes proposed in respect of the Minimum Alternate Tax (MAT):

- MAT changes from tax year 2026-27 onwards.
- MAT proposed to be reduced from the existing 15% to 14%.
- MAT proposed to be inapplicable to all non-residents (NRs) opting for presumptive taxation, including NRs engaged in (a) operating cruise ships, or (b) providing services or technology in India to resident companies engaged in electronic manufacturing under a notified scheme.

## For domestic companies, it is proposed that:

- MAT would be a final tax, and no new MAT credit to be allowed.
- No set-off of MAT credit if continuing in the old regime.

## Set off of MAT credit if transitioning to the new regime during or after the tax year 2026-27, as follows:

- Set off restricted to 25% of normal tax liability
- Balance credit can be carried forward to subsequent tax years (subject to the existing limit of 15 years) and set off as above.

## Buy-back tax:

- Consideration received on buy-back of shares chargeable to tax under the head 'capital gains', instead of being treated as dividend income.
- However, additional income tax on capital gains shall be payable by 'promoter' shareholders, which shall result in an effective tax at 22% (for domestic corporate shareholders) and 30% (for others).

## Expense deduction from dividend and income from mutual funds:

- As per the existing provisions of the Income-tax Act (ITA), taxpayers are allowed a deduction for interest expenditure up to 20% of dividend income while computing income under the head 'Income from other sources'. Such deduction shall not be allowed from tax year 2026-27 onwards.

## Corporate Tax (2/5)

### Deductibility of an employee's contribution to specified funds:

- Currently, employees' contributions to specified funds such as the provident fund and the Employees' State Insurance are allowed as a deduction only if deposited within the statutory due date prescribed under the respective laws.
- It is now proposed to allow deduction of an employee's contribution if such contribution is deposited on or before the due date for filing the return of income, even where payment is not made within the statutory due date.

### TDS:

- The definition of "work" for payment to resident is amended to clarify that payment for the supply of manpower would qualify as payment for "work" and consequently it will now be subject to deduction of tax at the rate of 1% is paid to an individual or HUF and 2% in other case. This amendment is effective from 1 April 2026.
- Interest on the compensation amount awarded by the Motor Accidents Claims Tribunal to an individual will now not be subject to tax deduction at source. This amendment is effective from 1 April 2026.

Nature of receipt	Existing	Proposed
Sale of alcoholic liquor for human consumption	1%	2%
Sale of tendu leaves	5%	2%
Sale of scrap	1%	2%
Sale of minerals, being coal or lignite or iron ore	1%	2%
Remittance under the Liberalised Remittance Scheme (LRS) for purposes of education or medical treatment	5%	2%
Sale of "overseas tour programme package" including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	<ul style="list-style-type: none"> <li>5% of the amount or aggregate of amounts up to <b>EUR 9500</b></li> <li>20% of the amount or aggregate of amounts exceeding <b>EUR 9500</b></li> </ul>	2% without any threshold

# Corporate Tax (3/5)

## Exempt incomes:

- In order to attract investments in data center and promote artificial intelligence data center framework in India, an exemption will now be provided to foreign companies earning any income by way of procuring data center services from specified data centers in India up to tax year 2046-2047, subject to certain conditions.
- In order to provide tax certainty to foreign company supplying capital equipment to contract manufacturers of electronic goods, any income arising in India to a foreign company providing capital goods, equipment or tools to the resident contract manufacturers located in custom bonded area will now be exempt from tax in India. The exemption will be subject to certain conditions and will be available up to tax year 2030-31.

## Extension of ITR due date for non-audit cases:

- The due date for filing the return of income by non-audit business cases, partners of non-audit firms and trusts not requiring audit is extended to 31 August following the tax year from the existing time limit of 31 July. This amendment is applicable from tax year 2025-26 onwards.

## Updated return:

- At present, filing of an updated return for disclosing additional income in respect of a tax year is not allowed if the updated return is a return of loss, or in case where the assessment or reassessment is pending or has been completed in respect of the relevant tax year. The updated return can now be filed in the cases where (a) loss is reduced or (b) reassessment notice is issued.
- However, in cases where the updated return is filed in response to reassessment notice, the taxpayer will be required to pay a further additional tax of 10% in addition to the additional tax payable on the aggregate of tax and interest payable on filing such return.

## Extended time limit to file revised income tax return:

- The prescribed time limit for filing of the revised income tax return is extended from its existing time limit of nine months to 12 months from the end of the relevant tax year with a nominal fee. This will apply from tax year 2025-26 onwards.

# Corporate Tax (4/5)

## Stay of demand:

- Presently, a taxpayer can obtain a stay of demand on an order which is in appeal by paying 20% of the amount payable under the Act (including the amount of tax, interest, fee, penalty, or any other sum). The stay can now be availed by paying only 10% of the amount of tax.

## Rationalization of penalties and prosecution:

Following offences are now fully decriminalized:

- failure to produce the books of accounts and documents.
- failure to pay or ensure the payment of tax where payment is made (i) “wholly or partly” in kind. In case of benefits or perquisites provided in the course of business or profession, in case of winnings from a lottery, crossword puzzle. (ii) wholly in kind in case of payments made for online games and for the transfer of Virtual Digital Assets.

## Punishment for certain offences is made proportionate to the nature of default by the following broad amendments:

- Nature of punishment is changed from rigorous imprisonment to simple imprisonment in the case of certain defaults.
- Maximum imprisonment is reduced to two years for a first offence and three years for a subsequent offence instead of the existing limit of seven years.

The above changes apply from 1 March 2026 onwards.

Penalty for certain technical defaults (for e.g., failure to get accounts audited, furnishing a statement of financial transaction or reportable account, non-furnishing of transfer pricing audit report) will now be removed and instead a fee will be levied. This will apply from tax year 2026-27 onwards.

Immunity from imposition of penalty or prosecution presently available in cases of under-reporting of income will be extended to cases of misreporting. This will apply from tax year 2026-27 onwards.

# Corporate Tax (5/5)

## Reduced tax rates on unexplained cash, credits:

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

## Other budget announcements:

- As part of the budget speech, the Finance Minister has announced that Income Computation and Disclosure Standards (ICDS) will be repealed w.e.f. 1 April 2027 and a joint committee consisting of the Ministry of Corporate Affairs and the Central Board of Direct Taxes (CBDT) will be formed to integrate ICDS and the Indian Accounting Standards.

# International Tax

## Tax break announced on high-growth sectors for non-residents

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

## Electronics manufacturing:

- A proposal has been made to provide tax exemption to foreign companies on income arising from providing capital goods, equipment, or tooling to an Indian contract manufacturer.
- The exemption applies when the contract manufacturer is an Indian resident company producing electronic goods for the foreign company located in a customs-bonded area.

This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards). The exemption will be available up to the tax year 2030-31.

# Transfer Pricing (1/8)

## A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors

### IT services sector

- Currently, the Safe Harbour regime categorizes IT sector services into four distinct groups: software development services, IT enabled services, knowledge process outsourcing, and contract R&D services related to software development. Each category is subject to different revenue thresholds and Safe Harbour rates.
- Broadly, the current Safe Harbour rules are as follows:

Services	Safe Harbour rate
Software development services and IT enabled services	<ul style="list-style-type: none"> <li>Transaction value does not exceed <b>EUR 9.5 million</b> – <b>17% on operating cost (OC)</b></li> <li>Transaction value exceeds <b>EUR 9.5 million</b> but does not exceed <b>EUR 28.6 million</b> – <b>18% on OC</b></li> </ul>
Knowledge process outsourcing	<ul style="list-style-type: none"> <li>Employee cost is at least <b>60% of operating expense</b> – <b>24% on OC</b></li> <li>Employee cost is <b>40% or more but less than 60% of operating expense</b> – <b>21% on OC</b></li> <li>Employee cost does not exceed <b>40% of operating expense</b> – <b>18% on operating expense</b></li> </ul>
Contract R&D services	24% on operating expense

Block period of choice  **5 Years**



**15.5%**

Unified Safe Harbour rate - IT services sector

## Transfer Pricing (2/8)

A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors (continued)

**In the Budget speech, the Finance Minister has proposed the following changes:**

- A unified category of IT services combining (a) software development services, (b) IT enabled services, (c) knowledge process outsourcing and (d) contract R&D services relating to software development.
- A common Safe Harbour margin of 15.5% apply to this unified category.
- The Safe Harbour eligibility threshold for IT services enhanced from **EUR 28.6 million to EUR 190.5 million**.
- Safe Harbour for IT services shall be approved through an automated rule-driven process without tax officer intervention.
- Once applied, a company may continue using the same Safe Harbour for a continuous block of five years at its option.

### Data center services

- The Budget proposes a Safe Harbour of 15% on cost for an Indian captive data centre service provider.



15%

**Data  
Center  
Services**

## Transfer Pricing (3/8)

A transformational shift in the Safe Harbour Regime (SHR) for high-growth sectors (continued)

### Electronics manufacturing

- To harness the efficiency of just-in-time logistics for electronic manufacturing, the Budget proposes to provide Safe Harbour to non-residents for component warehousing in a bonded warehouse.
- The proposal seeks to provide a Safe Harbour profit margin of 2% on the invoice value, with a resulting tax incidence estimated at about 0.7%.

The SHR-related proposals are announcements made as part of the Budget speech which need to be implemented by way of rules.

The effective dates and impact of such proposals need to be evaluated once the rules are notified.

Reinforcing the commitment to enhance the effectiveness of Advance Pricing Agreement (APA) program

### Fast track of unilateral APA for IT services

- The Budget proposes to fast track and conclude the Unilateral APA process for IT services within two years, with a possible extension of six months on the taxpayer's request.
- This provides better commitment and timelines certainty for the taxpayers.

### Component warehousing 2% of invoice value



0.7%

Tax  
incidence

## Transfer Pricing (4/8)

Reinforcing the commitment to enhance the effectiveness of Advance Pricing Agreement (APA) program (continued)

### Modified return by non-residents

- Under the provisions of the current law, a non-resident AE earning taxable income from an international transaction (e.g., royalty, interest, fees for technical services) is generally not able to claim refund for tax paid or withheld on the income by way of a correlative downward adjustment pursuant to an APA entered into by resident AE, even though the APA may have reduced the expense deduction in the hands of the resident taxpayer.
- Proposal to allow such non-resident AEs to file modified returns in accordance with the APA terms potentially enabling them to claim downward adjustment and seek refund for taxes paid or withheld.
- Timelines for such modified return by non-resident: within a period of three months from the end of the month in which the APA is concluded.
- Interplay between provisions of law relating to downward TP adjustment and this amendment needs to be carefully evaluated.

- This proposal is only available under APA forum and not for MAP cases.
- This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards).



**Advance Pricing Agreement (APA) fast track**



**Modified return by non-residents**

# Transfer Pricing (5/8)

Restoring the legislative intent by reversing judicial precedents and defining assessment timelines

## Clarification on the manner of computation of 60 days for Transfer Pricing Officer to pass the transfer pricing order for a tax year.

- Uncertainty around due date arose mainly on counting of 60-days time limit from the due date for passing the draft assessment order.
- Proposal to clarify the manner of computing the 60-day time limit available to the TPO for passing an order determining the ALP

	Scenario	Timeline to pass TPO order
<b>Under Income-tax Act, 1961</b>	Where assessment limitation expires on 31 March (non-leap year)	30 January of that year
	Where assessment limitation expires on 31 March (leap year)	31 January of that year
	Where assessment limitation expires on 31 December	1 November of that year
	Scenario	Timeline to pass TPO order
<b>Under Income-tax Act, 2025</b>	Where assessment limitation expires on 31 March	31 January of that year
	Where assessment limitation expires on 31 December	31 October of that year

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

## Transfer Pricing (6/8)

Restoring the legislative intent by reversing judicial precedents and defining assessment timelines

### **Draft assessment orders under the Dispute Resolution Panel (DRP) route: Impact on assessment timelines**

- A few recent judicial decisions narrowed the permissible window for assessments by strictly construing statutory time limit.
- Proposal to clarify that a draft assessment order may be issued at any time within the prescribed time limit for completing an assessment, reassessment, or re-computation.
- Proposal to provide that the assessment will continue under the DRP process ('DRP time-lines') and will not become time-barred.

- The time available to the Assessing Officer to complete the assessment thereafter will be governed by the DRP timelines, and not by the general limitation provisions.
- These amendments will apply retrospectively from 1 April 2009 for regular assessments and from 1 October 2009 for search-related assessments.

The above proposals nullify the judicial precedents that have taken a contrary view.

This amendment will be incorporated under both **Income-tax Act, 1961** and **Income-tax Act, 2025**.

# Transfer Pricing (7/8)

Shifting from penalty-based enforcement to a fee-based compliance framework

- Income-tax Act, 1961 enforces a penal framework for non-compliance with the Form 3CEB filing within the due date whereby fixed penalty of **EUR 950** is levied.
  - Proposal to convert the fixed penalty of **EUR 950** for failure to furnish Form 3CEB into a mandatory graded
  - This amendment will be effective from 1 April 2026 (tax year 2026-27 onwards).

## Specified domestic transactions

- Proposal to exclude transactions with newly established SEZ units from the scope of SDT.
- No deduction will be allowed for transactions connected with newly established SEZ units for the income enhanced after ALP computation.

Scenario	Revised fee
Delay of up to one month	EUR 475
Delay beyond one month	EUR 950

# Transfer Pricing (8/8)

## Unified framework for assessment and penalty proceedings

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

# Goods and Services Tax (GST)

- The place of supply of intermediary services to be the location of the recipient of service.
- Provision requiring discounts to be pre-agreed and linked to a specific invoice to be omitted.
- Discount to be allowed as deduction if a GST credit note is issued and corresponding input tax credit is reversed by the recipient.
- Provisional refund to be granted for refunds arising from an inverted tax structure.
- Minimum refund threshold of INR 1,000 to not be applicable in cases of export of goods with payment of tax.
- Till the time the National Appellate Authority for Advance Ruling is constituted, the government may empower any existing authority to hear the appeals.

## Export status to

## Intermediary services



**Provisional refund in case of inverted tax structure**



**Discounts to be allowed even if not pre-agreed**

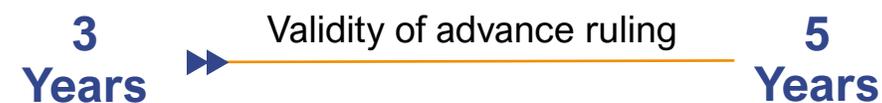
# Customs

- Customs duty rates proposed to be calibrated to simplify the tariff structure, support domestic manufacturing, promote export competitiveness and correct inversion in duty.
- Validity of advance ruling to be extended from three years to five years, unless there is a change in law or facts.
- Owner of any warehoused goods will be allowed to remove such goods from one warehouse to another without requiring permission from the proper officer subject to conditions as may be prescribed.
- Deferred Payment of Import Duty Rules, 2016 are being amended to allow monthly duty payment in place of the existing 15 days for all eligible importers. Benefit of deferred duty payment also to be extended to 'manufacturer importer' till 31 March 2028.
- The Baggage Rules, 2016 to be superseded by Baggage Rules, 2026.

- Jurisdiction of the Customs Act, 1962 will be extended beyond India's territorial waters for fishing and related activities by Indian-flagged fishing vessels.
- Section 28 of the Customs Act, 1962 is being amended to deem payment of penalty as charge for 'non-payment of duty'.

## Rate calibration and phased withdrawal of exemptions

## Deferred duty payment timelines extended



# Personal Tax (1/2)

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

## No change in Personal Tax rates



Due date for revised return extended to  
**31 March**

## Personal Tax (2/2)

- **Disclosure of foreign assets:** A special six-month window has been introduced for two categories of taxpayers to declare:  
 Category A - undisclosed income or assets up to EUR 95,238; and  
 Category B - taxpayers who disclosed foreign income and/or paid tax but did not declare foreign assets up to EUR 476,190.
- **Relaxation for Resident Individuals/ HUFs buying property from non-residents:** Relaxation from the requirement to obtain a Tax Deduction or Collection Account Number (TAN) by a resident individual or HUF, where the seller of the immovable property is a non-resident.
- **Supply of manpower to be categorized as contractual payments for TDS purposes:** TDS of 1% for payment to individuals/ HUFs, TDS of 2% on payment to others.
- **Immunity for non-disclosure of foreign assets:** Immunity from prosecution for non-disclosure of non-immovable foreign assets valued below **EUR 19,048**, with retrospective effect from 01 October 2024, providing relief to taxpayers who may have inadvertently missed reporting such assets.
- **Increase in STT rates:** Increase in Securities Transaction Tax (STT) rates on Futures from 0.02% to 0.05% and STT on options premium and exercise of options to be raised to 0.15% from rates of 0.1% and 0.125%, respectively.
- **Exemption for non-residents under the notified scheme:** Exemption for the global income of non-resident experts for a stay period of five years under notified schemes.

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