



UNION BUDGET ANALYSIS 2026 - 27

Foreword



I am pleased to present comprehensive highlights of the Union Budget 2026–27, marking the Honourable Finance Minister's ninth consecutive Budget and the first one after the enactment of the new Income-tax Act, 2025.

The Budget underscores sustained economic growth, inclusive development, and push to strategic investments to propel the nation towards *Viksit Bharat*. On macro-economic front, GDP is estimated to be at 7.4% for FY26, driven by strong domestic consumption, investments, reforms etc., despite tariff and geopolitical headwinds. Fiscal consolidation is estimated to remain on track, with the fiscal deficit targeted at 4.3% of GDP in FY27, reinforcing macroeconomic stability while supporting growth.

The FM outlined three *Kartavyas* to guide India's next phase of growth – (i) interventions to accelerate and sustain economic growth, (ii) fulfil aspirations and build capacity, and (iii) align with the vision of *Sabka Sath, Sabka Vikas* towards *Viksit Bharat*. The Budget identifies agriculture, MSMEs, investment, and exports as powerful engines for focus on enterprise growth, self-reliance and competitiveness fuelled by reforms and guided by inclusivity.

A standout theme of this year's fiscal blueprint is the boost to strategic manufacturing and technology sectors. Key initiatives include the launch of India Semiconductor Mission 2.0, elevated outlays for electronics components manufacturing, chemical and textile industries. Collectively, these measures underscore a calibrated strategy to drive growth that is robust, inclusive, and forward-looking, positioning India to harness emerging opportunities on the global economic stage.

On the direct taxes front, the Budget reclassifies share buyback proceeds as capital gains for all shareholders lowering tax for non-promoters, while imposing tax on promoters to curb arbitrage in lieu of dividends. Proposals are made to grant tax holiday up to 2047 to foreign companies providing data centre services as a measure to attract global investment. The tax holiday to all/existing eligible IFSC units is increased to 20 years from 10 years. Significant rationalisation is proposed in the MAT regime to push companies to adopt the new regime with MAT credit capped at 25% of the tax liability and denial of MAT credit under the old regime.

Procedural gaps of the tax department which were challenged by the taxpayers resulting in reliefs by different courts and some pending before the Supreme Court have been neutralised by retrospective changes. Proposals introduced to bring in certainty and clarity in transfer pricing provisions by standardization/lowering of safe harbours for IT/ITeS and data centres. The move to increase the STT rates to reduce speculative activity around futures and options rattled the stock markets.

On the Customs front, the Budget underscores the Government's focus on rationalising the duty structures and review of exemptions, aligned with India's manufacturing and export objectives. Targeted tariff adjustments and process reforms seek to enhance global competitiveness, support domestic value chains and facilitate smoother cross-border trade, while preserving revenue certainty.

A Customs Integrated System (CIS) is proposed to be rolled out over two years as a unified, scalable platform for all customs processes, while approvals for cargo clearance from various government agencies will be integrated into a single digital window by the end of the financial year. The one-time facilitation measure to enable SEZs units to clear goods into the DTAs at concessional duty rates, is welcome, for augmenting the installed capacity of the SEZs.

GST collections have shown a sustained upward trajectory reinforcing confidence in the sustainability of indirect tax receipts. Proposals to remove intermediary provisions, rationalize refunds and streamline credit notes/discounts, cut the compliance burden and boost taxpayers' experience.

Taken together, the Union Budget 2026–27 charts a bold path for *Viksit Bharat*, blending fiscal prudence with transformative reforms to unlock India's potential. As stakeholders across industry and society, we stand ready to partner in this journey, leveraging these opportunities for innovation, growth, and shared prosperity.

We trust this publication offers key insights and direction as we navigate this path together. Your feedback and thoughts are always welcome.

Dinesh Kanabar
Chairman and CEO
Dhruva Advisors India Pvt. Ltd.

Key Policy Announcements

FEM (Non-debt) Rules

- Proposal for comprehensive review of Foreign Exchange Management (Non-Debt Instruments) Rules for more contemporary, user-friendly framework, consistent with India's evolving economic priorities
- Person Resident Outside India ('PROI') permitted to invest in listed equities under the portfolio investment scheme, with individual investment limit raised to 10% from 5% and the overall investment limit to 24% from 10%

Measures for corporate bond market/municipal bonds

- Framework for enhancement of corporate bond market viz. market making framework, derivatives on corporate bond indices, total return swaps on corporate bonds
- Incentives provided for large value municipal bond issuances

Integration of ICDS and Ind AS

- Proposal to constitute a Joint Committee for incorporating requirements of ICDS in the Ind-AS itself

Simplified New Rules and Forms

- Notification of simplified new Income Tax Rules and Forms to reduce compliance burden and improve ease of doing business

Amendments in STT rate

- Increase in STT rates on F&O:

Instrument	Transaction	Value on which STT is levied	Current STT rate in %	STT rate% from April 1, 2026
Options in securities	Sale of option	Option premium	0.1	0.15
Options in securities	Exercise of option	Intrinsic price	0.125	0.15
Futures in securities	Sale of futures	Traded price	0.02	0.05

- It aims to address issue of disproportionate increase in speculation in F&O trading. The revised rates shall take effect from April 1, 2026

Banking reforms

- High-Level Committee proposed to align banking reforms with *Viksit Bharat* growth goals.

Key Direct Tax Proposals

Tax Rates

- No change in income-tax rates

Business income

Data Centre Services

- Any income of a notified foreign company, accruing or arising in India or deemed to accrue or arise in India, by way of procuring data centre services from a specified data centre (set up under an approved scheme and notified by MeitY and owned and operated by an Indian company) would be exempt from tax in India (up to tax year ending on March 31, 2047), subject to certain conditions:
 - Such foreign company does not own or operate any of the physical infrastructure or any resources of the specified data centre
 - Sales by such foreign company, to the extent the users are located in India, are made through a reseller entity being an Indian company
 - Such foreign company shall maintain and furnish such information in such form and manner, as may be prescribed
- The reseller would qualify for a safe harbour margin of 15 %¹ under transfer pricing provisions

Electronic Goods Manufacturing

- Income of foreign companies from providing capital goods, equipment or tooling to Indian contract manufacturers engaged in electronic goods manufacturing in India, would be exempt from tax in India (up to tax year 2030-2031), subject to certain conditions:
 - Ownership of such capital goods, equipment or tooling remains with the foreign company
 - Such capital goods, equipment or tooling is under the control and direction of the Indian contract manufacturer
 - The Indian contract manufacturer is located in a custom bonded area (i.e. a warehouse referred to in section 65 of the Customs Act, 1962)
 - The Indian contract manufacturer produces electronic goods on behalf of the foreign company for a consideration

Other deductions

- Deduction for employees' contributions towards PF, ESI, etc. shall be allowed if paid up to the due date of filing of income tax return as applicable. Currently, due date has been interpreted to be the due date under the respective legislations
- Deferred deduction of expenditure incurred for prospection or exploration or production of minerals is extended to new categories of minerals²

¹ as proposed in Budget Speech

² Beryllium bearing minerals, Glauconite, Graphite, Indium bearing minerals, Lithium bearing minerals, Niobium bearing minerals, Potash, Rhenium bearing minerals and Tantalum bearing minerals

- Amendment to Repeal and Savings clause to disallow/withdraw deduction/exemption under the 1961 Act, in case of violation of specified conditions/for any other reason

MAT

With a view to encourage assesses to migrate to the new tax regime, wide-ranging changes are proposed to the MAT provisions

- There will be no further credit accumulation from tax year 2026-2027 and taxes paid under MAT shall be the final tax
- MAT rate reduced to 14% (as increased by surcharge and cess) from the current rate of 15%
- For domestic entities which continue under the old regime, accumulated MAT credit shall not be available for set-off
- Utilisation of accumulated MAT credit shall be allowed -
 - For domestic companies migrating to the new tax regime from or after tax year 2026-27 - to the extent of 1/4th of the tax liability of the concerned tax year
 - For foreign companies - to the extent of normal tax exceeding MAT
- Enabling provision for transition of such MAT credit from the 1961 Act to 2025 Act is introduced
- Such utilisation shall be available for a period of 15 years from the year the credit first became available
- Exemption from MAT to all non-residents who pay tax on presumptive basis

Amendments to align the Tonnage Tax Scheme coverage for Inland Vessels

- Core activities of a tonnage company now also include on-board or onshore activities of inland vessels
- 'Certificate of Registration' issued under the Inland Vessels Act to be considered as a valid certificate for determining Net Tonnage of the vessel, as no separate 'Tonnage Certificate' is issued
- For compliance with the minimum training requirement and the computation mechanism for determining the average net tonnage to be governed by Inland Waterways Authority of India, instead of the Director General of Shipping

Exemption for Non-Resident Individuals visiting India

- Overseas income of individual (being non-resident for past 5 years) shall be exempt from tax for a period of five consecutive years from the first tax year during which he visits India for rendering services in connection with government notified scheme

Buy-back of Securities

- Proceeds of buy-back of shares or specified securities (earlier taxed as dividends) to be taxed as capital gains in the hands of the shareholders
 - Tax rate for non-promoters would be as per applicable capital gains tax rates
 - Headline tax rate* for promoters would be as under:

Category	Gains	Domestic Company	Others
Listed shares	STCG	20% + 2% = 22%	20% + 10% = 30%

Category	Gains	Domestic Company	Others	
Other securities	STCG	Applicable rates		
Listed/Unlisted securities	LTCG	12.50% + 9.5% = 22%	12.50% + 17.50% = 30%	

* inclusive of applicable tax + additional tax

- Meaning of Promoter
 - For listed companies – As per SEBI (Buy-Back of Securities) Regulations, 2018
 - For unlisted companies – As per section 2(69) of the Companies Act, 2013; or person who holds, directly or indirectly, more than 10% of shareholding in the company
 - The meaning of the Promoter as per aforesaid SEBI/Company's Act legislation essentially covers the following:
 - (a) person who are disclosed as promoter in prospectus/offer document/draft offer document/annual return; or
 - (b) Person having control over the affairs of the company, directly or indirectly; or
 - (c) Person on whose advice, directions or instructions the Board of Directors acts

Other Capital Gains

- No tax on income received by individual/HUF on account of compulsory acquisition of land under Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013
- Exemption from capital gains on redemption of SGB only to original individual subscribers if the SGBs are subscribed and held continuously till redemption
- Clarification on exemption available to all series of SGB schemes and not just SGB (2015 scheme)

Financial Services sector - IFSC

- The tax holiday period for any IFSC unit (including existing units) to be extended from current 10 consecutive years to
 - 20 consecutive years for eligible bank/offshore banking unit
 - 20 consecutive years (out of 25 years) for eligible IFSC unit
- Specified income post tax holiday period to be taxed at concessional rate of 15%
- No tax holiday for unit commencing operations on or after April 1, 2026, if such unit is formed by splitting up, reconstruction, reorganisation, or transfer of an existing business in India
- Loans between group entities involving an IFSC-based Finance Company or Finance Unit excluded from the scope of 'deemed dividend' if
 - group's parent or principal entity is listed on a stock exchange outside India in a specified jurisdiction (to be notified); and
 - other group entity involved in the transaction must be situated in specified foreign jurisdiction (to be notified)

Other Income

Expense deductibility against dividend income and income from mutual funds

- No deduction shall be allowed in respect of any expenditure incurred against dividend income and income from units of mutual funds. Under the current law, such expense is allowed as a deduction up to 20% of such income

Salary taxation - Recognised Provident Funds

- Deletion of condition which required that the employer's contribution shall not exceed the employee's contribution to PF in a particular year
- Deletion of condition requiring credit of employer's contribution at maximum interval of 1 year
- Earlier, employer's contribution to recognized PF, exceeding 12% of the employee salary, was taxable in the hands of the employee. The same has been omitted as it overlaps with ceiling limit of INR 7,50,000
- Clarification on recognition of only those PF which have obtained exemption under EPF Act

House property

- Currently, annual value of property held as stock-in-trade shall be NIL **for** two years from the end of the financial year in which completion certificate is received. It is proposed that annual value of property held as stock-in-trade shall be NIL **up to** two years
- In case of self-occupied house property, the ceiling limit of INR 200,000 in respect of deduction of interest on loan shall now include pre-construction period interest

Exempt income

- Interest on compensation awarded by Motor Accident Claims Tribunal to an individual or his/her legal heir under the Motor Vehicles Act, 1988

Transfer Pricing

Rationalisation of Safe Harbour Rules³

Information Technology Sector

- IT, ITeS, KPO and contract R&D services consolidated into a single category of 'IT Services', with a uniform safe harbour margin of 15.5% (earlier rates ranged from 17% to 24%)
- The upper turnover threshold increased from INR 3000 Million to INR 20,000 Million bringing a larger set of taxpayers within the framework
- Approval mechanism will shift to an automated, rule-driven process eliminating need for examination by tax officer
- Safe harbour can be opted for up to 5 years

Component warehousing in Bonded Warehouse

- Safe harbour will be available to non-residents at a profit margin of 2% of the invoice value

³ As per the Budget Speech

Advance Pricing Agreement⁴

- Unilateral APA's for IT/ITeS services will be fast-tracked, with a target completion timeline of two years, extendable by six months at the taxpayer's request
- Facility to file modified returns will be available for associated enterprises for years covered under APA

Time limit for TP orders

- Clarification provided for method of computing the 60-day period for passing TP orders, addressing ambiguities that existed under the earlier framework

Due Date for passing Final Assessment Order	Due Date for passing TP Order under 1961 Act (based on days)	Due Date for passing TP Order under 2025 Act (based on month)
31 March (non-leap year)	30 January	31 January
31 March (leap year)	31 January	
31 December	01 November	31 October

Registered NPOs

- Furnishing of belated returns by NPOs enabled, aligning it with the 1961 Act
- Commercial activities undertaken by registered NPOs pursuing objects of general public utility, in breach of the prescribed conditions, were treated as specified violations resulting into cancellation of registration under the 2025 Act. As such cancellation is not contemplated under the 1961 Act, provisions are aligned to omitted aforesaid violation as a specified violation but subject the NPO's income to tax in the manner prescribed for other violations
- Clarity provided for a tax-neutral framework for merger of registered NPOs having the same or similar objects, subject to fulfillment of prescribed conditions

Co-operative societies

- Deduction of dividends derived by a co-operative society from its investments with any other co-operative society, to the extent such dividends are further distributed to its members
- Further deduction is allowed for distribution of dividend received by notified federal cooperatives from any companies for 3 years, i.e. till tax year 2028-29. The deduction is proposed to be allowed only to the dividends, arising out of investments in Companies recorded till January 31, 2026
- The scope of deduction for primary cooperative societies is proposed to be expanded to include profits from activities of supplying cattle feed and cotton seeds

Withholding Tax

Key changes

- No WHT is applicable on interest on the compensation amount received by an individual from the Motor Accidents Claims Tribunal

⁴ As per Budget Speech

- It is clarified that supply of manpower falls within the definition of 'Work'. Accordingly, for supply of manpower, WHT is applicable at 1% and 2% for payments made to suppliers being individual/HUF and other payees, respectively
- No WHT is applicable on interest (except interest on securities) paid to any co-operative society engaged in the banking business including a co-operative land mortgage bank

Procedural changes

- Resident individuals or HUFs are not required to obtain a TAN for deducting WHT while making payment to non-resident on the sale of immovable property by a non-resident
- Electronic verification of application for NIL/lower tax certificate for small taxpayers, subject to prescribed conditions
- To simplify the procedure, effective from April 1, 2027, an electronic declaration can be furnished by resident individuals or other taxpayers (other than company or firm) to a Depository for non-deduction of tax in respect of dividend income (only for resident individuals), interest from listed securities or income from mutual funds, where the estimated tax on total income is NIL. Depository would be required to intimate the same to the paying company (details awaited)
- Punishment for failure to deposit WHT or pay tax/ensure payment of tax in certain cases (winning from online games or transfer of virtual digital asset (except entire amount is in kind)) has been reduced from 7 years as under:

Amount of WHT	Punishment
More than INR 5 Million	Imprisonment up to 2 years or fine or both
More than INR 1 Million but upto INR 5 Million	Imprisonment up to 6 months or fine or both
Upto INR 1 Million	Only fine and no imprisonment

Tax Collection at Source

- TCS rates on certain transactions are proposed to be modified as under:

Nature of transactions	Current rate	Proposed rate
LRS for purposes of education or medical treatment exceeding INR 1 Million	5%	
Sale of overseas tour program package up to INR 1 Million/more than INR 1 Million (threshold removed)	5%/20%	2%
Sale of alcoholic liquor for human consumption	1%	
Sale of tendu leaves	5%	
Sale of scrap	1%	
Sale of minerals, being coal or lignite or iron ore	1%	

- Punishment for failure to deposit TCS reduced from 7 years of rigorous imprisonment as under:

Amount of TCS	Punishment
More than INR 5 Million	Simple imprisonment upto 2 years or fine or both
More than INR 1 Million but upto INR 5 Million	Simple imprisonment upto 6 months or fine or both
Upto INR 1 Million	Only fine and no imprisonment

- In line with the intent of 1961 Act, it is proposed that guidelines issued by CBDT for WHT/TCS provisions shall be binding on both tax authorities and taxpayers

Rationalisation of Return Filing Provisions

Rationalising of due dates for filing of return of income

- Due date to file return of income for non-audit, non-corporate business income cases (including partners of firms) as well as trusts, extended to 31 August following tax year/previous year, as applicable

Extension of time limit for filing revised returns

- The time limit for filing revised returns is proposed to be extended (with effect from 1 March 2026) from 9 months to 12 months from the end of the relevant previous year or tax year, as applicable.
- Revised returns filed after 9 months would attract an additional fee of INR 1,000 where total income does not exceed INR 500,000 and INR 5,000 in other cases.

Expansion of scope for filing updated returns

- The scope for filing updated returns is proposed to be expanded with effect from 1 March 2026 by the following proposals:
 - Permitting updated returns even where the original return is a loss return, provided the updated return results in reduction of the loss claimed.
 - Updated returns would be allowed even after initiation of reassessment proceedings, subject to the same being filed within the time specified in the reassessment notice and payment of an enhanced additional tax (an incremental 10% in addition to current slabs). No penalty on additional income disclosed through an updated return.

Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026 (FAST-DS 2026)

- A one-time scheme (effective date to be notified by CG) proposed for small taxpayers to voluntarily disclose and resolve below legacy foreign asset and/or income non-compliances

Categories	Eligibility	Amount payable
Undisclosed foreign assets or income	Aggregate undisclosed income and asset value up to INR 10 Million	Aggregate of: (i) Tax - 30% * (undisclosed foreign income and FMV as on 31 March 2026 of undisclosed foreign asset); and (ii) Penalty - 100% of tax as above

Categories	Eligibility	Amount payable
<u>Disclosed</u> foreign income but failure to report foreign assets	Aggregate undisclosed asset up to INR 50 Million	Fee of INR 1,00,000

- Immunity to be granted from penalty and prosecution basis valid declaration under the FAST-DS 2026 and payment of applicable taxes
- The scheme is not applicable for the pending proceedings under PMLA or concluded proceedings under BMA

Assessment Proceedings

Clarification of time limits for completion of assessment in DRP cases

- To address litigation arising from divergent judicial views on the interaction between general assessment time limits and timelines applicable to DRP cases, it is retrospectively clarified that the time-barring period of limitation applies only to issuance of the draft assessment order, and not for passing final assessment order post DRP proceedings.

Clarification on validity of assessments despite technical defects in DIN

- In view of divergent rulings of various High Courts, and with the issue presently pending before the Supreme Court, it is clarified retrospectively that an assessment shall not be rendered invalid solely on account of any mistake, defect, or omission in quoting the DIN, where the assessment order is otherwise referenced by a computer-generated DIN

Streamlining levy of penalty and interest computation

- With a view to reduce multiplicity of proceedings and uncertainty arising from prolonged appellate processes, a common order covering both assessment and penalty, if applicable, will be issued
- The interest on outstanding demand pertaining to penalty shall be chargeable only after the appellate order is passed by the CIT(A) or ITAT (for appeal against DRP orders)

Conversion of specified compliance penalties into a fee-based regime

- Penalties for certain technical and compliance-related defaults are proposed to be replaced with a fee-based regime.

Scenarios	Proposed fees
Failure to file eTDS/eTCS statements	INR 200 per day for which such failure continues, subject to the total amount of underlying TDS/TCS
Failure furnishing a statement of financial transaction	INR 200 per day, subject to a maximum of INR 100,000
Failure to furnish a return of income	INR 1000, if the total income of such person does not exceed INR 5,00,000 and INR 5000, in any other case.
Failure to get accounts audited	INR 75,000 for a delay up to 1 month, and INR 1,50,000 thereafter
Failure to furnish transfer pricing audit report	INR 50,000 for a delay up to 1 month, and INR 1,00,000 thereafter

Re-assessments

- The expression “Assessing Officer” for the purposes of reassessment under the 1961 Act and the 2025 Act has been expressly defined to mean an Assessing Officer other than the NFAC or the faceless Assessment Unit. The proposed change is applicable with retrospective effect.
- All decisions of the High Court and pending litigation before the Supreme Court on this issue have been addressed.

Search proceedings - Block assessment

- The time limit for completion of block assessment has been rationalised to 18 months from the end of the quarter in which the search is initiated, replacing the earlier, timeline of 12 months from the end of the quarter in which the last authorizations for search was executed, to address issue of multiplicity of dates in searches on multiple parties in a search.
- Further, in the case of non-searched persons, the block period has been confined to the search period and the immediately preceding year, where the undisclosed income is restricted to such period and to single tax year where the undisclosed income pertains to a single tax year.

Stay of tax demand

- As announced in Budget Speech, the stay will be granted on payment of 10% of the quantum demand (i.e. other than penalty demand).

Unexplained Credits/Investments/Money/Expenses

- The tax rate on unexplained credits, investments, money and expenditure has been rationalised from 60% to 30%
- Correspondingly, the specific penal provision applicable to such additions has been omitted and subsumed within the general penalty regime for misreporting of income
- The penalty for misreporting at the rate of 200% of the tax payable would now apply, as against the existing 10% penalty under the current law, thereby resulting in a significantly higher effective tax outgo despite the reduction in the base tax rate.

Penalties

- The scope of immunity has been expanded to include cases of misreporting of income on payment of an additional 100% of tax, and a higher tax rate of 120% of tax for cases involving unexplained credits, investments, assets, expenditure and hundi
- No waiver or immunity shall be granted if prosecution proceedings have been initiated
- A penalty has been introduced for non-furnishing of statements relating to crypto assets at INR 200 per day, and for furnishing inaccurate information in respect of crypto assets at a fixed penalty of INR 50,000

Offences and Prosecutions

- Introduction of a simplified prosecution regime, reducing criminal exposure for lower-value, procedural defaults, making prosecution regime proportionate to offence, while retaining deterrence for serious offences

Revised punishment linked to monetary thresholds

- Punishment has been rationalized based on the amount involved:
 - Exceeding INR 5 Million – imprisonment up to 2 years, or fine, or both
 - INR 1 Million to INR 5 Million – Imprisonment up to 6 months, or fine, or both
 - Below INR 1 Million – Only fine (no imprisonment)

Rigorous imprisonment reduced to simple imprisonment

- Prosecution provisions providing for rigorous imprisonment have been scaled down to simple imprisonment

Reduction in penal consequences

- Failure to provide facilities for inspection of books during search – Punishment reduced to up to 6 months' imprisonment and/or fine (earlier up to 2 years)
- Wilful non-compliance with special audit directions – Punishment reduced to up to 6 months' imprisonment and/or fine (earlier up to 1 year)
- Second and subsequent offences – Maximum imprisonment reduced to 3 years from 7 years

Indirect tax proposals

GST- Key Legislative Changes

(To be effective from date of enactment of Finance Bill, unless otherwise specified)

- Section 15(3)(b) of CGST Act is to be amended to remove the need for a link with pre-existing agreement and invoice, for adjustment of post-sale discounts from the supply value. Such adjustment is subject to ITC reversal by the recipient, in accordance with Section 34 of CGST Act (*effective date to be notified*)
- Section 34 is to be amended to explicitly allow issuance of credit notes for discounts, under Section 15(3)(b) (*effective date to be notified*)
- Section 54(6) of the CGST Act is to be amended to enable grant of provisional refund (90% of the claim amount within seven days) in cases of inverted duty structure refunds (*effective date to be notified*)
- Section 54(14) of the CGST Act is to be amended to remove the minimum refund limit of INR 1,000 for export refunds with GST payment (*effective date to be notified*)
- New sub-section (1A) is to be inserted to Section 101A of the CGST Act, empowering the Government, on the GST Council's recommendation, to authorize an existing Authority/Tribunal to hear appeals pertaining to conflicting advance rulings given by the Appellate Authorities, until the constitution of National Appellate Authority (*to be effective from April 1, 2026*)
- Section 13(8)(b) of the IGST Act dealing with the place of supply of 'Intermediary Services' will be omitted. As a result, the place of supply of such services shall be the location of the service recipient

Customs - Key Legislative Changes

(To be effective from date of enactment of Finance Bill, unless otherwise specified)

- Jurisdiction of the Customs Act is proposed to be extended beyond the territorial waters for the purpose of fishing related activities. Similar changes are proposed to allow import and export of fishes harvested (by Indian flag fishing vessels) in the territorial waters
- Section 28(6) is proposed to be amended to provide that penalty of 15% deposited under Section 28(5), in cases involving collusion or wilful misstatement or suppression of facts, would be construed as a 'charge for non-payment of duty'
- Section 67 is proposed to be substituted to remove the requirement of prior permission of the proper officer for removal of warehoused goods from one custom bonded warehouse to another
- Validity of advance rulings under the Customs Act is being extended for a period of 5 years (presently 3 years) from the date of the ruling. Further, validity of existing advance rulings to be extended for 5 years upon the specific request of the applicant
- Amendment is being made to deferred payment of Import Duty Rules, 2016 to provide for deferred duty payment from the existing 15 days to 30 days for Tier 2 and Tier 3 AEOs. A new class of 'eligible manufacturer importers' is also being created for allowing deferred payment of duty
- Baggage Rules, 2026 (effective from February 2, 2026) introduced to rationalize the baggage provisions and addressing passenger related concerns at airports. Key highlights of these rules are:
 - General duty-free limit (arriving in India other than by land) enhanced from INR 50,000 to INR 75,000 for residents and from INR 15,000 to INR 25,000 for foreign tourists

- Duty free clearance of one new laptop including notepad in baggage
- Duty-free limits for transfer of residence enhanced from INR 60,000 - INR 5,00,000 to INR 1,50,000 - INR 7,50,000
- Compliance sought to be made easier by allowing electronic declarations for re-import or temporary imports
- Customs Baggage (Declaration and Processing) Regulations, 2026 introduced to consolidate all baggage-related procedural provisions into a single framework

Customs - Rate Changes

- The Budget proposed a series of changes to the Customs Tariff, including select reductions in tariff rates, rate-neutral realignment of the tariff structure, removal of redundant or obsolete entries, as well as extension of certain exemptions and elimination of select exemption notifications
- **Key proposals involving changes in BCD rates** *(to be effective from February 2, 2026, unless otherwise specified)*

Tariff Heading / Tariff Item	Particulars	Old Rate	New Rate
9804	All dutiable goods, imported for personal use	20%	10% ⁵
2841 90 00	Sodium antimonate for use in manufacture of solar glass	7.50%	Nil
8401 30 00	All goods for generation of nuclear power	7.50%	Nil
8401 40 00	Control and Protector Absorber Rods, and Burnable Absorber Rods, for generation of nuclear power	7.50%	Nil
8501 1020 8504 3100 851680 00 8516 9000	Specified goods for use in the manufacture of Microwave Ovens falling under tariff item 8516 50 00	As applicable	Nil

- **Key proposals in Customs Notifications**

New exemptions

- BCD exemption on capital goods for lithium-ion battery manufacturing extended to cover battery for Battery Energy Storage Systems (BESS)
- BCD exemption introduced on aircraft components and parts (including engines) for manufacture of aircraft and parts thereof, subject to IGCRS Rules, 2022
- BCD exemption extended to 17 new cancer drugs
- Duty free imports of drugs/medicines and food for additional 7 rare diseases, when imported for personal use

⁵ Effective from April 01, 2026

Exemptions continued up to March 31, 2028

- Gold ores and concentrates for use in the manufacture of gold
- Specified goods imported by bonafide exporters for use in the manufacture of leather or synthetic footwear, or other leather products, for exports
- Pile fabrics for the manufacture of toys
- Moulds, tools and dies, for the manufacture of parts of electronic components or electronic equipment
- Parts and components for use in the manufacture of goods like Micro ATMs, Fingerprint reader/scanner, Iris scanner, miniaturized POS card reader
- All parts for use in the manufacture of LED lights or fixtures including LED Lamps
- Parts, components and accessories for manufacture of CCTV Camera
- Lithium-ion cell for use in the manufacture of battery or battery pack of EV or hybrid motor vehicle

Exemptions discontinued (from March 31, 2026)

- Naphtha, for use in the manufacture of fertilisers
- Hydrophilic non-woven, hydrophobic non-woven, imported for use in the manufacture of adult diapers
- Metal parts for use in the manufacture of electrical insulators
- Pipes and tubes for use in manufacture of boilers

● **Other Proposals**

- One-time trade facilitation is proposed to enable eligible manufacturing units in a SEZ to undertake DTA sales at a concessional rate of duty
- Current cap of INR 1 Million on the value of goods exported through courier is being removed by amending Courier Regulations
- Time limit to export value added products such as textile/leather garments and leather/synthetic footwear (including shoe-uppers) using duty free inputs, increased from 6 months to 1 year
- Sunset clause removed for exemption entries including:
 - All goods (excluding vessels and other floating structures as are imported for breaking up) (CTH 8901)
 - All goods (excluding vessels and other floating structures as are imported for breaking up) (CTH 8906)
- Sunset clause prescribed for exemption entries including
 - Gold dore bar, having gold content not exceeding 95%
 - Silver dore bar, having silver content not exceeding 95%

Key Incentive Proposals

- The Biopharma Strategy for Healthcare Advancement through Knowledge, Technology and Innovation (SHAKTI) scheme proposed with an allocation of INR 100,000 Million
- The Construction and Infrastructure Equipment (CIE) scheme proposed to strengthen the local manufacturing of high-value and technologically advanced construction and infrastructure equipment
- The Container Manufacturing Scheme proposed with an allocation of INR 100,000 Million, to create globally competitive container manufacturing eco-system
- Building on the achievements of the India Semiconductor Mission (ISM) 1.0, ISM 2.0 has been announced. The focus of this phase is on producing equipment, materials, design and strengthening the supply chain for manufacture of semiconductor
- The Electronics Components Manufacturing Scheme (ECMS), launched in April 2025 with an initial outlay of INR 229,190 Million, had received investment commitments that are twice the set target. Consequently, the allocation for ECMS has been increased to INR 400,000 Million.

Glossary of Terms

Abbreviation	Meaning
1961 Act	Income-tax Act, 1961
2025 Act	Income-tax Act, 2025
AE	Associated Enterprise
AEO	Authorised Economic Operator
ALP	Arm's Length Price
AO	Assessing Officer
APA	Advance Pricing Agreement
ATM	Automated Teller Machine
AY	Assessment Year
BCD	Basic Customs Duty
BMA	The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
BOI	Body of Individuals
CBDT	Central Board of Direct Taxes
CCTV	Closed-Circuit Television
CG	Central Government
CGST Act	Central Goods and Services Tax Act, 2017
CIT(A)	Commissioner of Income Tax (Appeals)
CTH	Customs Tariff Headings
Customs Act	Customs Act, 1962
DIN	Document Identification Number
DRP	Dispute Resolution Panel
DTA	Domestic Tariff Area
EPF Act	Employees' Provident Funds and Miscellaneous Provisions Act, 1952
ESI	Employees' State Insurance Act, 1948
eTCS	Electronic Tax Collected at Source
eTDS	Electronic Tax Deducted at Source
EV	Electric Vehicle
F&O	Futures and Options
FAST-DS 2026	Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026
FEMA	Foreign Exchange Management Act, 1999, and rules and Regulations thereon
FM	Finance Minister
FTA	Free Trade Agreements
FY	Financial Year
GDP	Gross Domestic Product
GST	Goods and Services Tax
HUF	Hindu Undivided Family
ICDS	Income Computation Disclosure Standards
IFSC	International Financial Services Centre

Abbreviation	Meaning
IGCRS Rules	Import of Goods at Concessional Rate of Duty (IGCR) Rules, 2022
IGST Act	Integrated Goods and Services Tax Act, 2017
IndAS	Indian Accounting Standards
Inland Vessels Act	Inland Vessels Act, 2021
INR	Indian Rupees
InVITs	Infrastructure Investment Trusts
ISM	India Semiconductor Mission
IT	Information Technology
ITAT	Income Tax Appellate Tribunal
ITeS	Information Technology enabled services
JAO	Jurisdictional Assessing Officer
KPO	Knowledge Process Outsourcing
LED	Light Emitting Diode
LRS	Liberalised Remittance Scheme
LTCG	Long Term Capital Gains
MAT	Minimum Alternate Tax
MeitY	Ministry of Electronics and Information Technology
MSMEs	Micro, Small, and Medium Enterprises
NFAC	National Faceless Assessment Centre
NPO	Non-profit Organization
NRI	Non-Resident Indian
OBU	Offshore Banking Unit
PAN	Permanent Account Number
PF	Provident Fund
PMLA	The Prevention of Money-laundering Act, 2002
PROI	Person Resident Outside India
R&D	Research and Development
REITs	Real Estate Investment Trusts
SDT	Specified Domestic Transaction
SEBI	Securities Exchange Board of India
SEZ	Special Economic Zone
SGB	Sovereign Gold Bonds
STCG	Short Term Capital Gains
STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number
TCS	Tax Collected at Source
TDS	Tax deducted at source
TP	Transfer Pricing
TPO	Transfer Pricing Officer
WHT	Withholding Tax

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