India Union Budget 2026-27

Tax Flash News

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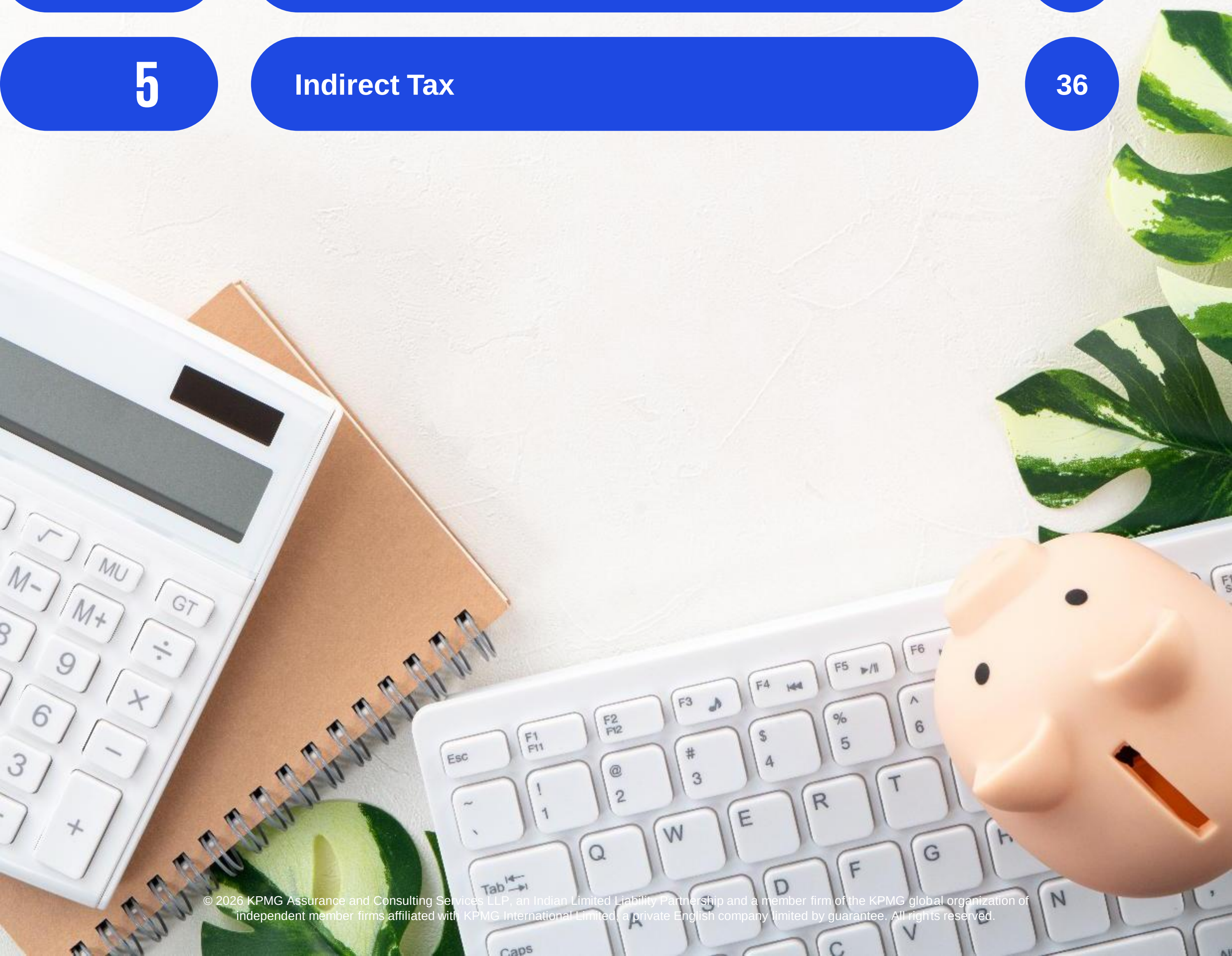


Foreword

A Ninth Stroke on the Fiscal Canvas: The Union Budget 2026 (‘the Budget’) presented by the Hon’ble Finance Minister Nirmala Sitharaman marks a rare moment in India’s fiscal history, being her ninth consecutive Union Budget. The Budget thus stands as a culmination of sustained fiscal stewardship, continuity, stability and a forward-looking blueprint for India’s next phase of growth.

India’s Economic Survey 2025-26 presents a picture of a resilient, domestically anchored economy, with real GDP growth estimated at about 7.4 per cent in FY26 and projected at 6.8–7.2 per cent going forward, supported by strong private consumption, a sustained public capex push, and a reviving private investment cycle. The Survey emphasises that the next phase of growth must move from scale to efficiency, with implementation of the New Labour Codes expected to drive formalisation, improve labour mobility, and enhance productivity in manufacturing and services. On the external front, the recently announced Free Trade Agreement with European Union marks a significant milestone in India’s trade and investment strategy, unlocking new opportunities for market access, technology collaboration, and labour-intensive exports.

On the regulatory front, the Government proposes to revamp the Non-Debt Instruments Policy and enhance the permissible limits for portfolio investments by individuals who are Persons Resident Outside India reflecting a calibrated move to boost the capital markets and attract foreign investments in India.

At the core of the Budget, the direct tax agenda is the implementation of the Income-tax Act, 2025, effective from 1 April 2026. This landmark legislation replaces the Income-tax Act, 1961 and represents a comprehensive re-engineering to simplify the Indian income-tax law.

Despite widespread expectations of further personal tax relief, the Budget makes no changes to existing income-tax slabs and marginal rates for tax year 2026–27. Nonetheless, the Budget introduces several measures aimed at easing compliance and reducing administrative friction. The due date for filing revised returns has been extended by three months i.e. from 31 December to following 31 March, subject to a nominal fee. Similarly, the allowing of filing of updated return against re-assessment notice is a welcome move which should reduce litigation and increase trust.

The Budget introduces a one-time Foreign Assets of Small Taxpayers – Disclosure Scheme, 2026. This voluntary disclosure window allows eligible taxpayers, including students, young professionals and returning NRIs, to regularise limited undisclosed foreign income or assets within prescribed thresholds, with immunity from penalties and prosecution under the Black Money Act.

The Budget also rationalises several TDS and TCS provisions (e.g. reduction of TCS rate on overseas remittances for education and medical purposes under the Liberalised Remittance Scheme to 2 per cent) and penalty/ prosecution provisions.

Foreword

A strategic highlight of Budget is the enhanced support for International Financial Services Centres, particularly GIFT City. The extension of the IFSC tax holiday to 20 years, followed by a concessional tax regime, significantly strengthens India's proposition as a global financial hub and is expected to attract foreign capital and global players in financial services sector.

Similarly, tax holidays have been granted to foreign companies availing data centre services in India and those providing tools / machinery to their contract manufacturer in custom bonded warehouse in India.

In the transfer pricing provisions also, there have been significant relaxation with respect to safe harbour provisions including rate for software development and IT/ITes services (now clubbed as technology services) as well as unilateral Advance Pricing Agreement timelines.

The Budget proposals accelerate India's transition to a technology-driven, trust-based, and low-friction customs ecosystem. It strengthens seamless trade facilitation through duty deferral for trusted traders, automatic clearance of compliance free consignments, and extended validity of advance rulings – together enhancing predictability and ease of doing business. The Government also maintains its push for tariff simplification through continued structural realignment.

A pivotal reform is the rollout of the Customs Integrated System, a unified digital platform enabling automated approvals, integrated PGA processing, data integrity, and advanced analytics. Coupled with the proposed AI-enabled non-intrusive scanning, this could significantly improve the reliability and turnaround time of shipments. Complementing these upgrades, a set of targeted incentives across aerospace, defence, critical minerals, electronics, renewable energy, fisheries, and footwear underscores the Government's commitment to labour intensive sectors, strengthening domestic manufacturing and enhancing India's export competitiveness.

Taken together, the Budget reflects a mature and confidence driven policy stance, one that privileges certainty, ushers structural reforms and prefers long term competitiveness over short-term fiscal optics. As India navigates an increasingly complex global environment, the Budget reinforces its reform agenda towards the resilient growth of India's economy, deeper global integration and a more predictable regulatory and tax landscape.

Macro Economic Trends – Economic Survey 2025-26[1]

Economic Overview: India’s Growth, Sectoral Trends, and Macro Indicators

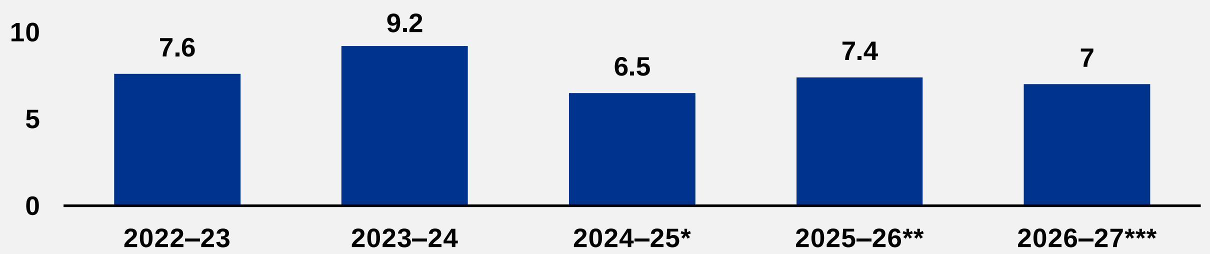
Global economic activity remains resilient, with emerging markets and developing economies (‘EMDEs’) outperforming initial 2025 growth expectations. Inflation trajectories are diverging, as advanced economies continue to face elevated inflation while EMDE inflation is easing. The reciprocal tariffs announced by the USA in April 2025 briefly heightened concerns about weaker growth and higher inflation, but their near term impact has proved short lived.

India’s economy continues to display steady momentum, with real GDP (Gross Domestic Product) growth for FY26 estimated at 7.4 per cent, driven predominantly by resilient domestic demand. Private consumption and capital formation remain key growth engines, while the services sector stands out as the primary contributor on the supply side. Sectoral projections for FY26 indicate agricultural growth of 3.1 per cent, supported by favourable monsoon patterns; industrial output rising by 6.2 per cent; and manufacturing demonstrating 7 per cent growth. The services sector is expected to lead overall expansion with a growth rate of 9.1 per cent.

Inflation has moderated sharply (headline Consumer Price Index (CPI) ~1.7 per cent), supported by food price corrections, while fiscal conditions remain supportive. Between FY20 and FY25, the effective Capex (Capital Expenditure) as a share of GDP rose from 2.6 per cent to 4 per cent. In the external sector, India’s total exports reached USD825.3 billion in FY25, while the current account deficit was a moderate 0.8 per cent of GDP in H1 FY26.

Additionally, the labour market conditions have improved, with unemployment trending down.

1.1 GDP Growth (at constant prices, %)



Provisional Estimates

*****First Advance Estimates***

******Projected Estimates***

The real GDP growth for FY27 is projected at 6.8-7.2 per cent
Projected Estimates calculation: =(6.8+7.2)/2

1. Source: Economic Survey 2025-26, Ministry of Finance, Accessed on 29 January 2026

Looking ahead, real GDP growth for FY27 is projected in the range of 6.8–7.2 per cent, reflecting strengthened medium-term growth prospect. The outlook points to sustained growth amid ongoing global uncertainty, warranting caution but not pessimism.

Strengthening India's Economy: Fiscal Reforms and Strategic Investments

The Central Government prioritises credible deficit reduction, revenue mobilisation, and a strategic shift towards capital expenditure to foster macro stability and growth.

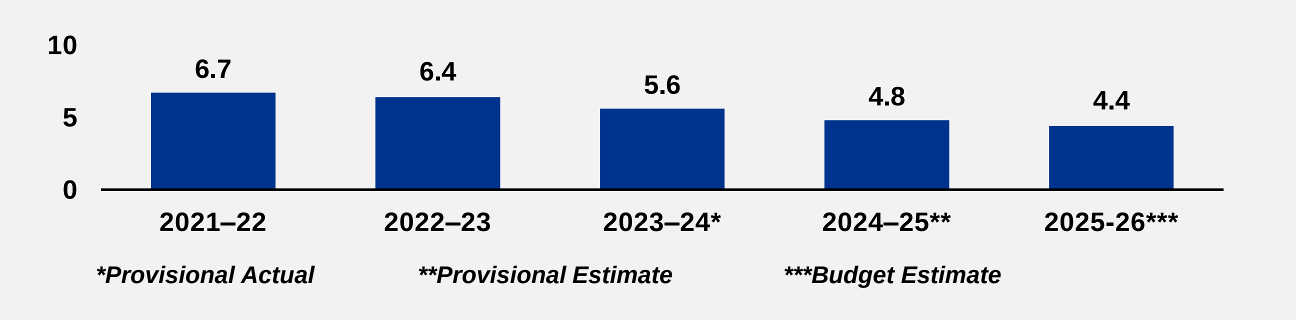
Revenue receipts have increased from 8.5 per cent to 9.1 per cent of GDP, driven largely by gross tax collections, which rose from an average of 10.8 per cent to approximately 11.5 per cent of GDP over the same period. The share of direct taxes in total taxes has increased from 51.9 per cent to 58.8 per cent in FY25 (Provisional Actuals).

Gross collections of Goods and Services Tax ('GST') in April-December 2025 reached INR17.4 lakh crore, (+6.7 per cent y-o-y). GST reforms have streamlined the tax structure into a two-rate system and reduced key rates, on agricultural goods from 12 per cent to 5 per cent, and on small cars and motorcycles from 28 per cent to 18 per cent, supporting demand and improving compliance.

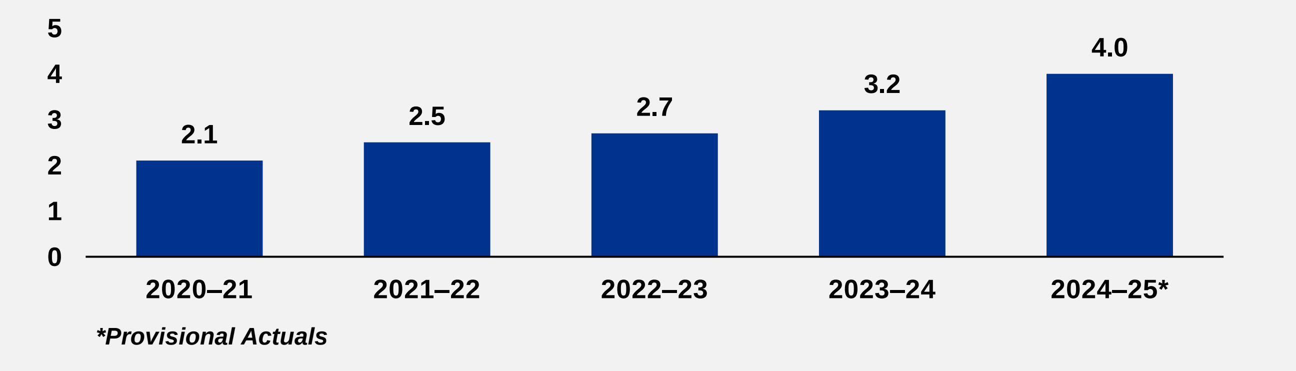
On the expenditure side, revenue expenditure fell from 13.6 to 10.9 per cent of GDP (FY22–25), enabling higher capex (~1.7 to ~3 per cent of GDP). The Centre's capital outlay, especially in infrastructure sectors is projected to grow by 10.8 per cent y-o-y in FY25.

Fiscal deficit is declining, from 9.2 per cent of GDP (FY21) to a projected 4.4 per cent (FY26). Debt-to-GDP ratio aims for 50 per cent by FY31, indicating sustainability. Transfers to states have increased, with their share in central taxes rising from INR9 lakh crore (FY22) to INR14.2 lakh crore (FY26), though States' fiscal deficit has edged up to 3.2 per cent of GDP, signalling emerging fiscal pressures.

1.2 Fiscal deficit (as % of GDP)



1.3 Capital expenditure (% of GDP)



Looking ahead, GST 2.0 and personal income tax reforms aim to simplify structures, lower compliance costs, broaden the base, and strengthen both growth and revenue mobilisation.

Financial Sector Transformation: Macro Trends and Reforms in India

India's financial sector shows stability, supported by targeted policy measures and robust macroeconomic fundamentals. The Reserve Bank of India ('RBI') reduced the repo rate by 100 basis points in FY26 bringing it down to 5.25 per cent as of December 2025 and lowered the cash reserve ratio to 3 per cent, injecting INR2.5 lakh crore into the banking system, supporting liquidity and stability.

Banking health has improved, as evidenced by the gross non-performing asset ('GNPA') ratios reaching multidecadal lows and the capital-to-risk-weighted-asset ratio ('CRAR') of scheduled commercial banks climbing to 17.2 per cent by September 2025.

Weighted average lending rates on fresh loans declined by 64 basis points, supporting credit demand and credit growth recorded a 14.5 per cent y-o-y increase, reflecting borrower confidence and lending momentum.

Financial inclusion advanced through digital public infrastructure, fintech innovations, and government initiatives. The establishment of India's first international financial service centre at Gujarat International Finance Tech City ('GIFT City') was a milestone, enhancing access to global capital and fostering financial innovation. Insurance reforms lifted penetration and lowered costs, and pensions expanded with rising National Pension System (NPS) and Atal Pension Yojana subscribers and assets under management.

Capital markets demonstrated resilience against global headwinds, with the Nifty 50 and BSE Sensex posting gains of 11.1 and 10.1 per cent, between April and December 2025. India led global IPO issuances, mobilising INR10.7 lakh crore in FY26 (till December 2025), signalling deeper capital markets and rising investor participation.

Insurance Asset Under Management ('AUM') reached INR74.4 lakh crore and premiums INR11.9 lakh crore in FY25; the Sabka Bima, Sabki Suraksha Act, 2025 raised Foreign Direct investment ('FDI') to 100 per cent, attracting global capital and expertise. The NPS continued to expand, with 211.7 lakh subscribers and INR16.1 crore in assets as of December 2025.

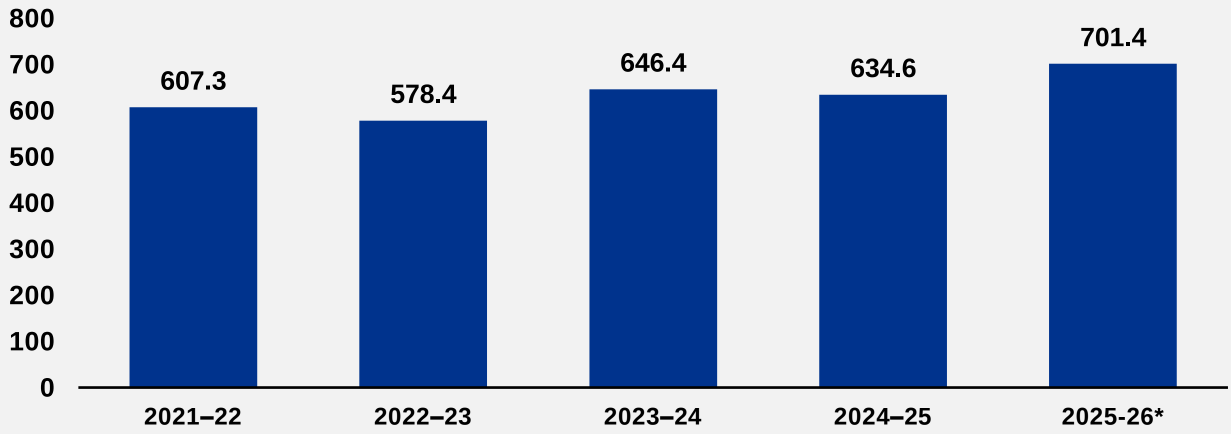
Challenges remain in regulatory adaptation and digital transformation as ongoing reforms aim for a stable, inclusive financial ecosystem ready for future demands.

Adapting to Change: India's External Sector Performance and Policy Initiatives

India's exports reached a record USD825.3 billion in FY25, with USD418.5 billion achieved in the first half of FY26, driven by growth in services and non-petroleum exports. Services exports hit an all-time high of USD387.5 billion, solidifying India's leadership in technology and professional services. The country has the potential to reach USD100 billion of combined exports of agriculture, marine products and food and beverage in the next four years.

The current account remains stable due to services exports and remittances. Despite global FDI challenges, India has continued to attract substantial gross investment inflows, especially in equity and greenfield projects. Foreign exchange reserves have strengthened considerably, reaching USD701.4 billion as of January 2026, providing approximately 11 months of import cover and protection against external liabilities. External debt is moderate with a healthy maturity profile and adequate reserve cover, and the debt to GDP ratio is low as compared to major economies, reflecting prudent leverage.

1.4 Foreign exchange reserves (in USD billion, year-end)



**As of January 16, 2026*

Amid global trade shifts towards protectionism, India strategically diversifies export destinations and import sources, enhancing resilience against tariff uncertainties. Ranking third among Global South nations for trade diversity underscores its broad network.

Policy initiatives such as the Production-Linked Incentive ('PLI') scheme have played a pivotal role in boosting domestic manufacturing and exports, particularly in sectors such as IT hardware, electronics, and solar PV, thereby expanding production capacity within global value chains.

Despite rupee depreciation pressures from foreign investment outflows, benefits for trade outweigh costs. India's external sector thrives on increased competitiveness through diversified trade networks adapting to global demand changes.

India's external sector shows increased global integration via higher exports, resilient services trade, and wider networks, signalling greater competitiveness, diversification, and adaptability.

Macroeconomic Stability: India’s Inflation Declines and Global Trends

Global inflation has significantly moderated from post-pandemic highs. Advanced economies now stabilise at 2–3 per cent, while emerging markets, including India, have seen decreases. India's inflation rate dropped to 2.8 per cent in 2025, reflecting steady macroeconomic fundamentals and effective monetary policy. Among major EMDEs, India has recorded one of the sharpest declines in headline inflation, amounting to about 1.8 per centage points.

Domestically, retail inflation in India declined to 1.7 per cent in 2025–26 due to falling food prices, particularly vegetables, pulses, and spices. Core inflation remains sticky because of surges in precious metals but is more subdued when these are excluded.

Regional inflation dynamics reveal higher volatility in rural areas due to the prominence of food consumption. However, state-level inflation aligns within the RBI’s tolerance band. The RBI and IMF (The International Monetary Fund) project a gradual increase in headline inflation within the targeted range of 4 per cent (±2 per cent).

Looking ahead, projections indicate that inflation will remain within target ranges supported by agricultural output and stable global commodity prices. However, risks from currency fluctuations and base metal price surges persist, requiring ongoing monitoring and adaptive policy responses for sustained stability.

India’s Agriculture: Navigating Growth, Sustainability, and Policy Innovation

India's agriculture sector has shown a steady growth, with a 4.4 per cent annual increase over five years. Livestock and fisheries have been particularly major contributors, registering growth rates of 7.1 per cent and 8.8 per cent, respectively, while horticulture output surpassed foodgrain production at 362.1 million tonnes in 2024–25. Despite these successes, the sector faces persistent challenges such as fragmented landholdings, low mechanisation, soil health deterioration, water scarcity, and the impacts of climate change.

To address these issues, the government has implemented several initiatives, including the Pradhan Mantri Krishi Sinchai Yojana (‘PMKSY’), among others; to enhance productivity and ensuring food security. The Minimum Support Price (‘MSP’) policy provides price assurance to farmers, and the Pradhan Mantri Kisan Samman Nidhi (‘PM-KISAN’) offers direct income support.

Technological advancements are being encouraged through digital agriculture initiatives such as the e-National Agriculture Market (‘e-NAM’), among others, which aim to improve market access and reduce post-harvest losses. Food security is reinforced through the National Food Security Act (‘NFSA’), strengthening delivery to vulnerable groups and improving subsidy targeting via technology and transparency. Sustained sector growth remains critical for resilience, rural prosperity, and national food security, supported by ongoing policy interventions.

Services Sector in India: Engine of Growth and Global Integration

India’s services sector, accounting for over half of the Gross Value Added (‘GVA’), is the largest recipient of FDI inflows. With an average annual growth rate of 7–8 per cent, it surpasses agriculture and industry, which face cyclical fluctuations. India's share in global services trade rose from 2 per cent in 2005 to 4.3 per cent in 2024, making it the seventh-largest exporter globally.

Globally, services have outperformed goods trade in the post-pandemic period, and India has mirrored this trend with greater momentum. India’s services share in GDP rose to 49.9 per cent in 2024–25, exceeding its pre-pandemic average by a larger margin than most major economies.

Services now account for over 80 per cent of total FDI inflows, concentrated in information and communication services, professional services, finance, and energy-related activities.

In H1 FY26, services GVA grew by 9.3 per cent, raising its GDP share to 53.6 per cent. Financial and professional services drove growth while public administration expanded steadily. Services remain central to urban employment, accounting for nearly 62 per cent of urban jobs and over 50 per cent of net formal payroll additions.

Services exports are emerging as a key buffer against global uncertainty, with their share in GDP rising to 10 per cent in H1 FY26, led by software and professional services that together contribute over 65 per cent of services exports. Artificial Intelligence (‘AI’) is further strengthening performance in AI intensive segments, particularly software and business services.

The sector is expanding rapidly in digitally delivered, knowledge intensive and experience led offerings, reinforcing India’s comparative advantage. To sustain this momentum, targeted reforms are needed to address skills gaps and regulatory constraints, while continuing to build competitiveness through digital transformation.

Overall, services remain a dynamic, stabilising pillar of growth with potential to support inclusive and sustained economic expansion.

From Reform to Global Leadership: India's Industrial Sector Performance and Strategic Shifts

Despite global uncertainty, India's industrial sector delivered sustained momentum in FY 2025–26, supported by government initiatives such as PLI scheme and the National Manufacturing Mission, which are attracting investment and accelerating innovation in high technology manufacturing, electronics and emerging industries.

Industrial GVA grew by 7 per cent in the first half of FY 2025–26, alongside a structural move towards higher value manufacturing, with medium and high technology industries now accounting for 46.3 per cent of manufacturing value added. India's global competitiveness has improved, as reflected in its rise to 37th place in the Competitive Industrial Performance ranking in 2023. At the same time, the pattern of industrial financing is evolving. As bank credit growth to industry moderated to 8.2 per cent in FY25, overall funding to the commercial sector continued to expand, supported by increased reliance on non-bank sources such as corporate bonds and commercial paper.

Performance across key industries is notable, with crude steel output recording a 10.1 per cent CAGR (Compound Annual Growth Rate) between 2020–21 and 2024–25, and pharmaceuticals retaining global leadership in generics and vaccines with exports to 191 countries.

The innovation ecosystem is deepening through improved global innovation outcomes and rising patent filings, and the Anusandhan National Research Foundation ('ANRF') and the Research, Development and Innovation ('RDI') Fund are expected to lift private R&D (Research and Development) and strategic capabilities. Logistics and cost competitiveness are improving through programmes such as PM GatiShakti and the National Industrial Corridor Development Programme, supporting deeper integration into global value chains.

The MSME sector remains a vital pillar, making a significant contribution to manufacturing, exports, and GDP, with government initiatives strengthening credit flows and expanding market access. At the same time, there is a clear need to shift strategically from import substitution towards building scale, competitiveness, and deeper global integration, thereby positioning India's industrial sector as a key driver of future growth and resilience.

Infrastructure - Next Leap: Structural Transformation and Global Integration

India's infrastructure development has accelerated sharply, forming a foundation for the next phase of industrial transformation. Public capital expenditure increased by 92 per cent between FY19 and FY22, rising from INR3.1 lakh crore to INR5.9 lakh crore, with a further budgeted allocation of INR11.2 lakh crore for FY26, an 89 per cent rise over FY22. Infrastructure financing has strengthened as well, with credit flows from non-bank financial companies to the commercial sector growing at a 43.3 per cent CAGR between FY20 and FY25, outpacing the 25 per cent CAGR in non-food bank credit.

Physical infrastructure has expanded across transport, energy, and connectivity. The National Highway network set a 10,000 km construction target for FY26, with 4,938 km completed by December 2025. The rail network extended to 69,439 route kilometres by March 2025, aiming for 3,500 km more in FY26, while electrification reached 99.1 per cent by October 2025. Civil aviation capacity has grown substantially, with the number of airports increasing from 74 in 2014 to 164 in 2025, and passenger traffic projected to rise from 412 million in FY25 to 665 million by FY31. Inland Water Transport cargo movement grew from 18 MMT (Million Metric Tons) in 2013–14 to 146 MMT in 2024–25. Installed power capacity reached 509.7 GW (Gigawatt) by November 2025, with renewables accounting for 49.8 per cent (253.9 GW).

Institutionally, PM GatiShakti has embedded multimodal, GIS-enabled (Geographic Information System) planning, improving coordination and project execution. Public-Private Partnerships remain central, positioning India among the top five global destinations for private infrastructure investment. Advances in digital infrastructure, water resource management, and the space sector further reflect a holistic approach.

Going forward, stringent project preparation, efficient dispute resolution, deeper financing, and enhanced institutional capacity will be critical to sustaining momentum and realising the long-term vision of Viksit Bharat @2047.

India's Climate Strategy: Macro Trends in Adaptation, Mitigation, and Sustainable Growth

India's climate strategy is anchored in achieving developed nation status by 2047 through high, inclusive, and environmentally sustainable growth. This requires transforming consumption and production patterns, advancing technological and policy reforms, and embedding climate action into national development priorities. Mission LiFE (Lifestyle for Environment) underscores this shift by promoting behavioural change and citizen participation alongside government-led mitigation and adaptation measures.

Adaptation remains central to India's climate response. State Action Plans on Climate Change integrate water security, resilient livelihoods, urban resilience, and ecosystem restoration. India's adaptation expenditure increased from 3.7 per cent of GDP in FY16 to 5.6 per cent in FY22, reflecting sustained investment in resilience. Key programmes such as the National Mission on Sustainable Agriculture and the National Coastal Mission support adaptation across vulnerable sectors.

On mitigation, India pursues a balanced transition by scaling renewables, battery storage, and nuclear energy to secure supply and competitiveness. The country has exceeded its goal of 50 per cent installed capacity from non-fossil sources, driven by solar and wind expansion. Emerging areas such as nuclear energy, green hydrogen, and advanced storage, along with reforms like the SHANTI Act, 2025, reinforce India's long-term low-carbon pathway.

Financing remains a major challenge due to inadequate global capital flows to developing countries. India is addressing this through sovereign green bonds and strengthened development finance institutions to mobilise domestic climate finance. Environmental governance is becoming more risk-based and outcome-driven, supported by digital platforms such as PARIVESH and initiatives like the Afforestation and Green Credit Programme.

Climate action is thus integral to India's development strategy, with adaptation forming the foundation for climate-resilient growth and international finance and technology essential for scaling ambitions.

Inclusive Growth through Education and Health: Pathways to a Future-Ready India

India's progress toward Viksit Bharat depends on strengthening human capital through inclusive, high-quality education and health systems. With 24.7 crore students across 14.7 lakh schools, 69 per cent of them government schools enrolling nearly half of all students, India runs one of the world's largest school networks. The National Education Policy ('NEP') 2020 seeks to transform schooling by prioritising foundational literacy, numeracy, critical thinking, and social-emotional development.

Under the policy, the goals include achieving a 100 per cent gross enrolment ratio in school education by 2030 and 50 per cent in higher education by 2035. Higher education continues to expand, with 70,018 institutions and 4.5 crore enrolments. Reforms such as the Academic Bank of Credits, National Credit Framework, flexible entry–exit pathways, and the proposed Viksit Bharat Shiksha Adhishthan Bill, 2025 aim to improve governance, autonomy, and quality. State Public Universities remain central but require stronger capacity, industry engagement, and faculty development. Internationalisation efforts seek to reduce outbound migration and position India as a global education destination, while low formal skill training, around 1 per cent of youth, underscores the need to integrate vocational pathways.

Health outcomes have improved, with declining maternal and child mortality and wider access through initiatives like Ayushman Bharat. Yet rising non-communicable diseases, now accounting for over 57 per cent of deaths, pose a growing challenge alongside communicable disease burdens. Digital platforms such as the Ayushman Bharat Digital Mission and e-Sanjeevani have strengthened transparency and access. However, nutritional concerns, including child malnutrition and micronutrient deficiencies, persist despite programmes like POSHAN Abhiyaan, and emerging issues such as digital addiction among youth affect mental well-being.

Overall, India must pursue integrated education and health reforms to build a future-ready workforce and drive sustained, inclusive growth.

India’s Employment Landscape: Sectoral Expansion, Skill Initiatives, and Labour Code Reforms

India’s employment and skill development landscape is undergoing significant transformation, supported by rising labour absorption and a strengthening demographic profile. The workforce exceeded 56 crore in Q2 FY26, with 8.7 lakh net new jobs added over Q1 FY26. The labour force participation rate reached 55.8 per cent, while unemployment fell to 4.8 per cent as of September 2025. Improvements span both organised and unorganised sectors. With nearly 65 per cent of the population in working age expected to surpass 98 crore within a decade and peak around 2030. India faces both opportunity and urgency in job creation and skill alignment.

Organised manufacturing expanded steadily, recording a 6 per cent y-o-y employment increase in FY24 and adding over 10 lakh jobs. Large factories now account for 79 per cent of manufacturing employment, reflecting deeper formalisation. The gig economy continues to grow rapidly, with a 55 per cent rise in the gig workforce between FY21 and FY25; gig workers now form over 2 per cent of total employment. Non agricultural gig roles are projected to reach 6.7 per cent of the workforce by 2029–30. Platforms such as e Shram registering over 31 crore unorganised workers are improving access to social security benefits and portability.

Skill development and inclusion remain central. The Ministry of Skill Development and Entrepreneurship, through initiatives like the Skill India Digital Hub (SIDH), aims to align vocational training with labour market needs. Female labour participation has risen significantly, from 23.3 per cent in 2017–18 to 41.7 per cent in 2023–24, though constraints such as mobility and housing persist. The introduction of four Labour Codes seeks to modernise regulation and extend protections, including for gig and platform workers.

Policy priorities include expanding affordable housing, improving urban mobility, and adopting a whole of government approach to skilling and job creation to maximise India's demographic potential.

India's Progress in Rural Transformation and Poverty Reduction

India's model of inclusive growth has driven significant reductions in poverty, improved social mobility, and strengthened access to basic services, with rural transformation at the core of these gains. Poverty has fallen sharply on both monetary and multidimensional measures. Using the revised World Bank poverty line of USD3 per day, extreme poverty declined to 5.3 per cent in 2022–23, while multidimensional poverty fell to 11.3 per cent, down from 55.3 per cent in 2005–06. States with initially high poverty saw faster reductions, indicating regional convergence. These improvements stem from sustained economic growth, targeted welfare delivery, and community-driven implementation.

Social sector spending has expanded consistently, with general government expenditure on social services growing at a 12 per cent CAGR between FY22 and FY26 (BE - Budget estimate). Social protection coverage increased from 22 per cent in 2016 to 64.3 per cent in 2025.

Rural access to amenities has improved markedly, with near-universal electrification, 99.6 per cent access to improved drinking water, and widespread sanitation through Swachh Bharat Mission. Rising education and health spending continue to bolster human capital.

The rural economy has strengthened with higher incomes, better infrastructure, formal credit access, and welfare transfers. NABARD (National Bank for Agriculture and Rural Development) surveys show resilient rural consumption and investment, while dependence on MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) has dropped, with person-days more than halving from pandemic peaks. The Viksit Bharat – G-RAM G Act, 2025 replaces MGNREGS, expanding guarantees to 125 days employment, improving accountability, prioritising infrastructure, and enhancing digital monitoring.

Community participation now anchors rural development. Panchayati Raj Institutions, self-help groups, and grassroots bodies increasingly shape planning. Technology initiatives including SVAMITVA, Namo Drone Didi, digitised land records, and AI-enabled tools have strengthened transparency, property rights, and livelihoods.

Overall, India's shift from scheme-based delivery to community-led partnership has deepened social progress and enhanced rural resilience.

Navigating the AI Revolution: Strategic Insights for India's Economic and Social Transformation

AI is reshaping the global economy, requiring India to adopt a strategy grounded in its own economic realities rather than replicating resource-intensive models from advanced economies. Given constraints in capital, computing capacity, energy, and infrastructure, pursuing scale for its own sake is neither necessary nor efficient. Instead, India's approach must be bottom-up and multi-sectoral, guided by a unified national vision capable of generating dignified employment for its young workforce.

A 2025 McKinsey survey showed that 88 per cent of organisations globally used AI in at least one function, with 31 per cent scaling its deployment and 7 per cent fully integrating it. Adoption was highest in high-income countries (58.4 per cent), but significant growth in upper-middle-income (22.5 per cent) and lower-middle-income economies (18.7 per cent) highlights AI's expanding global reach.

India must leverage its strengths in human capital, data diversity, and institutional coordination. The development of open, interoperable AI systems can support collaboration and shared innovation. On governance, sequencing is critical: experimentation should precede scaling, with binding obligations introduced only where risks or asymmetries are significant. The proposed data governance framework aims to balance cross-border data flows with accountability and regulatory visibility, ensuring domestic data ultimately benefits India's citizens.

The government's role is that of an enabler and coordinator, supporting markets and institutions as they navigate technological transformation. AI is thus positioned not as an end in itself but as a strategic choice, one that requires a tailored, collaborative, employment-generating approach supported by effective governance and data systems.

Unlocking Urban Potential: Challenges and Opportunities in Indian Cities

India's cities are central to economic growth, generating a disproportionate share of national output and serving as hubs of productivity, innovation, and employment. Agglomeration economies arising from density and proximity enhance labour matching, knowledge spillovers, and infrastructure efficiency, with evidence showing that doubling a city's size can raise productivity by around 12 per cent. However, despite rapid urban expansion and multiple mega-cities, scale has not translated proportionately into global competitiveness, liveability, or productivity improvements.

Urbanisation is increasingly dispersed and peri-urban. Satellite-based night-time light data and DEGURBA spatial classifications indicate India is significantly more urban than Census definitions suggest, with much growth occurring outside statutory limits. Metropolitan expansion has largely been outward along transport corridors and converted agricultural land, creating rising infrastructure demands at the periphery and underscoring the need for regional, rather than city-centric, planning.

Institutional fragmentation is a key constraint. Cities contribute heavily to GDP yet have limited fiscal autonomy, weak own-source revenues, and governance spread across multiple agencies, resulting in misaligned land use, housing, transport, and economic planning. Restrictive land regulations, low floor space indices, and unclear land titles limit land utilisation, constrain affordable housing, and push development outward.

Mobility challenges, driven by rising private vehicle dependence, impose high congestion and productivity costs. Expanding high-capacity public transport, improving first- and last-mile connectivity, and adopting transit-oriented development remain critical.

Urban sanitation and waste management have improved under Swachh Bharat Mission - Urban (SBM–U) and SBM-U 2.0, though progress is uneven and now depends more on behavioural and institutional capacity. Aligning governance, planning, finance, and civic behaviour is essential for converting urban growth into sustained productivity and well-being.

Building Strategic Resilience: India's Economic Growth, Reform Agenda, and Global Integration

India's recent economic and strategic evolution marks a shift from traditional import substitution policies to a more sophisticated framework centered on strategic resilience and global indispensability. Effective macroeconomic fundamentals and targeted reforms now support this transition, enhancing domestic capability and increasing India's integration with global systems.

In the post pandemic period, India has exhibited steady economic momentum, with potential growth moving towards 7 per cent. A healthy banking system and capital formation exceeding 30 per cent of GDP reflect compelling investment activity. The current account deficit remains low, and ample foreign exchange reserves provide a buffer against external shocks, reinforcing economic stability.

Major structural reforms continue to enhance the economy's foundation. The rollout of four new labour codes, the simplification of GST, higher minimum tax thresholds of INR12 Lakhs for individuals, and the opening of insurance and nuclear power to foreign investors have broadened compliance, improved transparency, and would encourage foreign investment.

India's development trajectory unfolds amid a volatile global environment shaped by geopolitical tensions, shifting trade patterns, and China's rising manufacturing dominance. The COVID 19 pandemic further exposed supply chain vulnerabilities, prompting India to adopt a tiered approach to strategic indigenisation. This approach prioritises critical vulnerabilities, sectors where domestic production is economically viable, and areas with lower immediate strategic urgency, thus strengthening domestic capability without compromising global competitiveness.

A key theme is the role of state capacity in steering strategic transformation. India aims to cultivate an entrepreneurial state capable of acting under uncertainty, learning from feedback, and coordinating across institutions. Progress is evident: as of January 2026, 76 per cent of priority reforms identified by the Task Force on Compliance Reduction and Deregulation have been implemented, meaningfully reducing regulatory friction.

Citizens and the private sector are positioned as vital partners in this journey. Citizen norms shape institutional effectiveness, while private enterprises are increasingly expected to align with national priorities, contributing to capability development
and economic resilience. India's ambition extends beyond self reliance towards strategic indispensability, where domestic capabilities are embedded within global production systems and India serves as a reliable source of value for global partners.

With steady macroeconomic fundamentals, continued reforms, and a growing emphasis on state capacity, India is well placed to advance towards greater resilience and a more influential role within the global economic architecture.

Macro Economic Trends – Union Budget 2026-27 Highlights[1]

Focus on growth, human capability and equitable access through reforms, investment and technology for a balanced Viksit Bharat vision

The government, in the Budget proposals presented a comprehensive policy framework aimed at sustaining India's economic momentum while deepening inclusion and strengthening the long term foundations of growth. Presented as a Yuva Shakti–driven Budget, it prioritises decisive action over ambiguity, reform over rhetoric and people over populism. The Budget is guided by three core kartavya: accelerating and sustaining economic growth; meeting citizens' aspirations by building human capability; and ensuring equitable access to resources and opportunities across regions and communities, aligned with the principle of Sabka Saath, Sabka Vikas. The proposals blend structural reforms, fiscal discipline, strong public investment and the strategic application of technology to advance the vision of Viksit Bharat, balancing ambition with inclusive development.

Technological adoption to sustain growth, manage risks and enhance governance amidst global uncertainties

The government frames its proposals against a backdrop of sustained economic growth, moderate inflation, fiscal discipline and monetary stability achieved through wide ranging reforms and consistent public investment. It also acknowledges external uncertainties, including disruptions to trade and supply chains, constraints on access to critical resources and rapid technological change that is reshaping production systems and intensifying pressure on energy, water and mineral requirements. In response, the government reaffirms its commitment to maintaining reform momentum through continuous, adaptive and forward looking measures. More than 350 reforms have been implemented to date, including the simplification of GST, notification of the Labour Codes, rationalisation of quality control orders and coordinated deregulation with State Governments. A resilient financial sector and the adoption of cutting edge technologies, including AI, are positioned as key force multipliers to enhance governance, productivity and risk management.

1. Source: Union Budget 2026, Ministry of Finance, Accessed on 1 February 2026

Fiscal prudence with strategic devolution, targeted grants and balanced expenditure to ensure sustainable economic growth

Fiscal prudence continues to be a central pillar of the Budget. The Government has accepted the recommendations of the 16th Finance Commission, maintaining the vertical devolution share to States at 41 per cent and providing INR1.4 lakh crore in grants, including significant allocations for local bodies and disaster management.

The debt to GDP ratio is projected at 55.6 per cent, with a medium-term target of 50±1 per cent by 2030. The fiscal deficit for 2026-27 is estimated at 4.3 per cent of GDP, consistent with the ongoing path of consolidation.

Total expenditure is estimated at INR53.5 lakh crore, including capital expenditure of INR17.1 lakh crore. Gross market borrowings are projected at INR17.2 lakh crore. The Budget also details the composition of receipts and expenditure, reflecting the balance between revenue and capital outlays, transfers to States and allocations across major sectors such as defence, infrastructure, social services and interest payments.

Strategic manufacturing supports MSMEs and enhances global competitiveness

A major pillar of the Budget is the expansion of manufacturing across strategic and frontier sectors to strengthen domestic capabilities, reduce import dependence and enhance global competitiveness. Key initiatives include Biopharma SHAKTI, which aims to position India as a leading manufacturing hub for biologics and biosimilars by developing the supporting ecosystem, strengthening institutions and expanding clinical trial capacity. India Semiconductor Mission (ISM) 2.0 seeks to deepen capabilities in equipment, materials, design and supply chains, supported by industry led research and training.

Manufacturing support will also extend to electronics components, rare earth permanent magnets—facilitated through dedicated corridors in mineral rich States, cluster based chemical parks and enhanced capacities in capital goods. Additional schemes are proposed for container manufacturing, construction and infrastructure equipment and the creation of high-tech tool rooms by CPSEs (Central Public Sector Enterprises) to design and manufacture precision components domestically. The labour-intensive textile sector will be supported through an integrated programme covering fibres, cluster modernisation, handloom and handicrafts, sustainable textiles, skilling and the development of mega textile parks. Traditional sectors such as khadi and village industries will benefit from initiatives focused on branding, quality enhancement and global market access, while dedicated support is also proposed for sports goods manufacturing.

To revitalise existing industrial capacity, a scheme will be launched to upgrade 200 legacy industrial clusters through infrastructure and technology improvements. Recognising MSMEs as key drivers of growth, the Budget introduces a three pronged approach to develop “Champion MSMEs”. Equity support will be provided through a INR10,000 crore SME Growth Fund and an additional contribution to the Self-Reliant India Fund. Liquidity support will be strengthened by mandating TReDS (Trade Receivables Discounting System) for CPSE procurement from MSMEs, introducing credit guarantees for invoice discounting, linking GeM (Government e-Marketplace) with TReDS and enabling the securitisation of receivables. Professional and compliance support will be expanded through the development of “Corporate Mitras”, offering affordable advisory assistance to MSMEs.

Services sector growth, human capital development, exports and economic competitiveness

Under the second kartavya of fulfilling aspirations and building capacity, the Budget places renewed emphasis on the services sector as a key driver of employment, exports and economic growth. A High Powered Education to Employment and Enterprise Standing Committee is proposed to identify priority areas, assess the implications of emerging technologies for the labour market and recommend measures to strengthen the services ecosystem.

Human capital initiatives span health, care services, education, creative industries, tourism and sports. In health, the Budget proposes upgrading and establishing institutions for Allied Health Professionals, expanding training across selected disciplines and developing a comprehensive care ecosystem through NSQF (National Skills Qualification Framework) aligned programmes to train 1.5 lakh caregivers in geriatric and allied care. Medical value tourism will be promoted through regional hubs integrating healthcare, education, research, AYUSH services and post care facilities. The AYUSH sector will be further strengthened through new institutes, upgraded pharmacies and testing laboratories and expanded global research capacity.

People centric measures include the creation of Self-Help Entrepreneur (SHE) Marts as community owned retail outlets within cluster level federations. The Divyangjan Kaushal Yojana will provide customised, industry relevant training for different disability groups, while the Divyang Sahara Yojana will ensure timely access to high quality assistive devices. Support to ALIMCO (Artificial Limbs Manufacturing Corporation of India) will be enhanced to scale production, expand R&D and integrate AI. PM Divyasha Kendras will be strengthened as modern retail style centres. A NIMHANS 2 will be established, national mental health institutes in Ranchi and Tezpur will be upgraded and emergency and trauma care facilities will be expanded.

Education proposals include developing university townships near major industrial and logistics corridors, constructing girls' hostels in higher education STEM (Science, Technology, Engineering, and Mathematics) institutions across districts and investing in telescope infrastructure for astronomy and astrophysics. Support for the orange economy will include AVGC (Animation, Visual Effects, Gaming, and Comics) content creator labs, while design education will expand with a new National Institute of Design. Tourism and hospitality will be strengthened through the creation of a National Institute of Hospitality, upskilling programmes for tourist guides, a National Destination Digital Knowledge Grid, sustainable nature-based trails, heritage site development and the hosting of a Global Big Cat Summit. Sports development initiatives will be consolidated under the Khelo India Mission through an integrated pathway for talent development, coaching, sports science and infrastructure.

Enhancing market strength and long-term financing through incentives and reforms

The financial sector measures focus on strengthening markets and long-term financing. An INR100 crore incentive is proposed for a single municipal bond issuance above INR1,000 crore, while the AMRUT scheme will continue. Reforms include restructuring the Power Finance Corporation and Rural Electrification Corporation and a comprehensive review of Foreign Exchange Management (FEMA) (Non debt Instruments) Rules. Bond market development will be supported through a market making framework and total return swaps. A High-Level Committee on Banking for Viksit Bharat will be established. Additionally, the Securities Transaction Tax on futures and options will see an increase.

Boosting inclusive growth through various strategic initiatives

Aligned with the third kartavya of inclusive growth, the government aims to boost farmers' incomes through productivity, diversification and entrepreneurship. Initiatives include fisheries development via integrated reservoir management and strengthened value chains; animal husbandry with entrepreneurship support, veterinary infrastructure and skill development; and high-value agriculture focusing on crops such as coconut, cashew, cocoa, sandalwood and nuts. Programmes target orchard rejuvenation, focused cultivation and value addition.

Bharat VISTAAR, a multilingual AI system, will integrate agricultural data for advisory support to improve decision-making for farmers. Women-led enterprises receive backing through SHE Marts—community retail outlets building on self-help group successes. The Budget also emphasises empowering Divyangjan with targeted skilling, assistive devices access, strengthened centres and domestic manufacturing of assistive technologies. Mental health is addressed by enhancing national institutes and expanding trauma care in district hospitals.

Regional development is prioritised through the Purvodaya initiative, which includes building the East Coast Industrial Corridor, improving tourism destinations and promoting electric mobility. Additional focused efforts support the Northeastern Region, including the development of Buddhist tourism circuits.

Infrastructure investment, energy security and urban development to drive economic progress

The focus is on strengthening growth through infrastructure investment, energy security and planned urban development. Public capital expenditure remains key, supported by InVITs, REITs, NIIF and NABFID. An Infrastructure Risk Guarantee Fund will offer partial credit guarantees to lenders, improving project viability. Asset monetisation will accelerate via CPSE real estate recycling with dedicated REITs. Connectivity initiatives include new Freight Corridors, operationalisation of 20 National Waterways, ship repair ecosystem development, a Coastal Cargo Promotion Scheme, seaplane manufacturing support and financial assistance for states under SASCI (Special Assistance to States for Capital Investment / Expenditure).

Energy security measures include customs duty exemptions for capital goods used in battery storage, solar glass, nuclear power and critical minerals processing. The Carbon Capture, Utilisation and Storage scheme aims to enable industrial decarbonisation, alongside incentives supporting biogas blended CNG.

Urban policy promotes City Economic Regions in Tier II and III cities and temple towns, with high-speed rail corridors proposed to enhance connectivity and regional growth.

Emphasis on trust-based governance and building a competitive, inclusive economy

The Budget focuses on trust-based governance by simplifying customs procedures and reducing compliance burdens through enhanced reliance on self declaration and risk based systems. It also extends the duty deferral period for Tier II and III Authorised Economic Operators and advance rulings binding on Customs are made valid for a longer duration. Trusted importers benefit from minimised cargo verification, while automated notifications link cargo arrival with customs filings. The customs warehousing framework is restructured into an operator centric system to improve efficiency and predictability.

The Budget proposals articulate a coherent strategy to sustain growth, strengthen resilience and broaden participation in India’s development journey. By integrating manufacturing led growth, services driven employment, infrastructure expansion, human capital development and inclusive rural and social initiatives with fiscal discipline and governance reforms, the Budget seeks to translate aspirations into achievement. This approach aims to build a competitive, inclusive economy aligned with Viksit Bharat's vision.

Key Regulatory Announcements

- Individual Persons Resident Outside India (‘PROI’) would be permitted to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme. The investment limit for a single PROI in a listed company is 5 per cent currently and would be increased to 10 per cent. Also, the aggregate investment ceiling of PROIs to own maximum of 10 per cent equity in a listed Indian company would be increased to 24 per cent.
- The Government would set up a “High Level Committee on Banking for Viksit Bharat” to comprehensively review the sector and align it with India’s next phase of growth while safeguarding financial stability, inclusion and consumer protection.
- The Government would set-up a “High-powered Education to Employment Standing Committee” to recommend measures on the services sector as core driver of Viksit Bharat.
- A comprehensive review of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 would be undertaken to encourage and attract foreign investments and usher a more conducive investment framework.
- The cash flow and liquidity support for MSMEs would be strengthened by mandating TReDS (‘Trade Receivables Discounting System’) as the default settlement platform for all purchases from them by Central Public Sector Enterprises (‘CPSEs’). This would encourage wider participation in invoice discounting, and treating TReDS receivables as an asset-backed securities would result in better liquidity and market expansion for MSMEs.

Direct Tax

Personal taxation

Rates and substantive changes

- No change in income tax slabs and rates applicable to individuals.
- Interest on compensation awarded under the Motor Vehicles Act, 1988 to an individual or the legal heir to be exempt from tax. No tax to be deducted at source in respect of such interest.
- Resident individual and Hindu Undivided Family ('HUF') (being buyer of immovable property) not required to obtain Tax Deduction and Collection Account Number ('TAN') to deduct tax at source on consideration relating to transfer of any immovable property, where the seller of the immovable property is a non-resident [effective 1 October 2026].
- Income in respect of any award or agreement made on account of compulsory acquisition of any land, carried out on or after 1 April 2026 under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 to be exempt.
- Income accruing or arising outside India for individuals rendering services under a government notified scheme to be exempt for a period of five consecutive tax years provided such individual was a non-resident for five consecutive tax years immediately preceding the tax year of his visit for rendering of services in India.
- The prosecution provisions under the Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015 ('the Black Money Act'), would not apply to non-disclosure of assets other than immovable property where the aggregate value of such undisclosed assets does not exceed INR20 lakh, aligning with existing threshold of penalty provisions.
- The capital gains on redemption of RBI's Sovereign Gold Bonds to be exempt only for original individual subscriber who purchased the bonds directly at issuance and held them continuously till maturity.

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

Small taxpayers have been provided a time-bound opportunity to declare undisclosed foreign assets or foreign-sourced income with payment of specified tax or fees as under:

Sr. No.	Type of undisclosed asset or income	Amount payable
1.	Where the aggregate value of undisclosed asset located outside India and undisclosed foreign income does not exceed INR1 crore	Aggregate of: 1. Tax at 30 per cent of value of asset located outside India as on 31 March 2026; 2. Tax at 30 per cent of the undisclosed foreign income; 3. 100 per cent of the amount calculated in 1 and 2 above
2.	Where value of asset located outside India does not exceed INR5 crores and • acquired from income accruing or arising outside India, while being non-resident and not declared on becoming a resident; or • acquired from income offered to tax in India	A fee of INR1 lakh

- Such small taxpayers to receive limited immunity from penalty and prosecution under the Black Money Act.
- Effective date of the scheme to be notified by the Central Government.

Corporate tax

Tax rates

- No change in applicable tax rates for companies.

Taxation of non-residents

- Tax holiday until 31 March 2047 provided to foreign companies on their income accruing/ arising in India from their customers relating to procuring of data centre services from a specified data centre in India (as notified by government). Further, where such services are provided to Indian users, the tax holiday would apply only where the foreign company sells its services to Indian customers through an Indian reseller.
- The income of a foreign company from providing capital goods/equipment/tools to its Indian contract manufacturer located in a custom bonded area for manufacture of electronic goods on behalf of the foreign company would be exempt till 31 March 2031.

Transfer Pricing

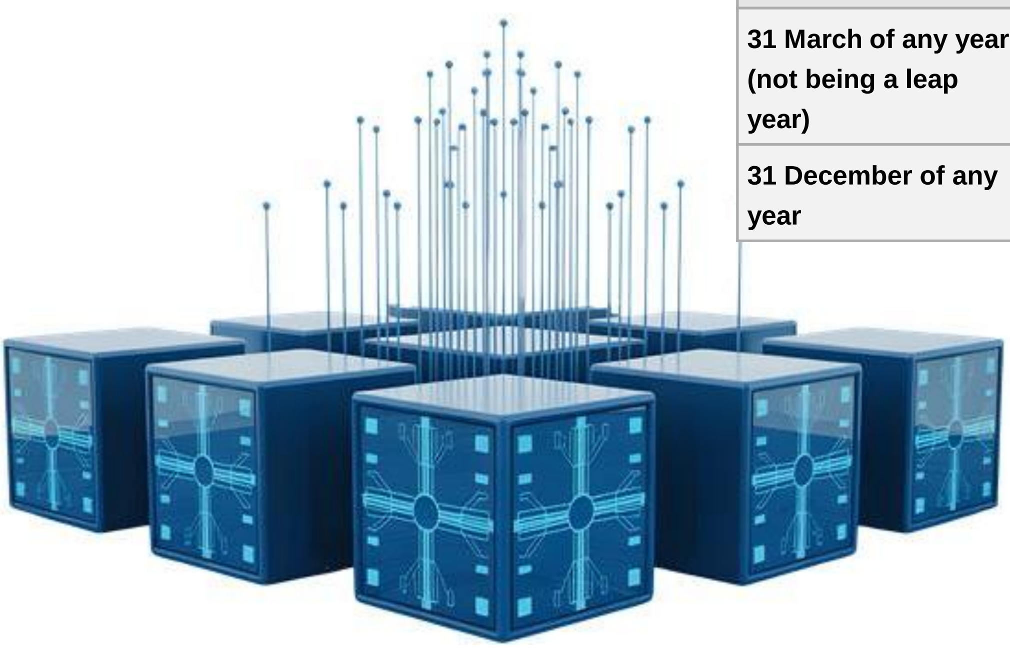
Time limit for issuance of order by the transfer pricing officer

- The time limit for issuance of order by the transfer pricing officer substituted to '*before one month prior to the month in which the limitation period expires'* as against '*sixty days before the expiry of limitation period'* and accordingly the following applies under the Income-tax Act, 2025 ('the 2025 Act'):

Limitation expires on	Due Date
31 March of any year	31 January of that year
31 December of any year	31 October of that year

- Under the Income-tax Act, 1961 ('the 1961 Act') and from 1 June 2007, the computation of 60 days is revised and applies as under:

Limitation expires on	Due Date
31 March of any year (being a leap year)	31 January of that year
31 March of any year (not being a leap year)	30 January of that year
31 December of any year	1 November of that year



Safe Harbour rules

- In the context of safe harbour provisions, the software development services, information technology enabled services, knowledge process outsourcing services and contract research and development related to software development services would be clubbed under a single category of Information Technology Services and subject to a common safe harbour margin of 15.50 per cent on cost.
- The maximum threshold to avail safe harbour provisions increased from INR300 crores to INR2000 crores, with an option to apply it for a continuous period of five years, through an automated, rule based approval process.
- A safe harbour of 15 per cent on cost would be introduced for resident companies providing data centre services to a foreign related entity, which in turn provides cloud services to customers outside India.

Advance Pricing Agreements

- For Advance Pricing Agreements (‘APAs’) signed on or after 1 April 2026 and for years beginning from that date, the eligibility to file a return, or a modified income tax return pursuant to an APA, extended to Associated Enterprises (‘AEs’) of the taxpayers signing the APA. This would enable the AEs to claim refund of any additional taxes paid by it or withheld from its income. The AEs to furnish such return within a period of three months from the end of the month in which the APA is signed.
- Unilateral APAs for companies engaged in Information Technology services announced to be fast tracked with an endeavour to conclude within a period of two years, extendable by a further six months at the taxpayer’s request.

Domestic taxation

Rationalisation of Minimum Alternate Tax (‘MAT’) provisions

- MAT paid under the old corporate tax regime to be treated as final tax with no further MAT credit allowed.
- MAT rate reduced to 14 per cent of book profits from the existing 15 per cent.
- MAT credit set-off will now be allowed only to domestic companies opting for new regime on or after 1 April 2026.
- This credit would be restricted to 25 per cent of the tax liability and the balance credit would be allowed to be carried forward and set off up to fifteenth year immediately succeeding the tax year in which the tax credit first became allowable.
- In the case of foreign companies, set off of MAT credit is proposed to be allowed to the extent of the difference between the tax on the total income and the MAT, for the tax year in which normal tax is more than MAT.
- In case of non-residents engaged in the specified businesses subject to presumptive taxation, being operation of cruise ships and providing services or technology for the setting up an electronics manufacturing facility in India to a resident company, are proposed to be excluded from the applicability of MAT with effect from 1 April 2026.

Capital gains

Buy-back Tax

Buy-back proceeds to be taxed as capital gains and not as dividends as under:

- Promoter and non-promoter shareholders at their applicable rates for short-term capital gains ('STCG') and long-term capital gains ('LTCG').
- Promoter shareholders to pay additional income-tax on capital gains as below:

Sr. No.	Income	Rate where promoter is a domestic company	Rate for other promoter
1	STCG	2 per cent	10 per cent
2	LTCG	9.5 per cent	17.5 per cent

In this regard, 'promoter shareholders' mean (a) in case of Indian listed company as per the SEBI regulations for buy-back of securities and (b) in other cases, as per Companies Act, 2013 or the person who holds (directly or indirectly) exceeding 10 per cent of the shareholding in the company.

Securities Transaction Tax

The securities transaction tax rate on Future and Option to be increased w.e.f. 1 April 2026

Transaction	Old Rate (%)	New Rate (%)
Sale of an option in securities	0.1	0.15
Sale of an option in securities, where the option is exercised	0.125	0.15
Sale of a futures in securities	0.02	0.05

Charitable Trusts/Institutions

The merger of two non-profit organisations registered with same or similar objects and fulfilling prescribed conditions would not attract tax on accreted income as was the position under the 1961 Act.

Similarly, provisions related to specified violation, belated return and registration requirements also align suitably with provisions of the 1961 Act.

Tonnage tax scheme

The provisions of Tonnage Tax Scheme (applicable to a company engaged in the business of operating qualifying ships) have been aligned with the provisions of the Inland Vessels Act, 2021 enabling extension of benefits under the Scheme to inland vessels.

Other provisions

- No deduction is allowed for any interest expenditure incurred for earning dividend income or income from units of mutual funds.
- The eligible deduction of expenditure on prospecting of critical minerals extended to nine additional minerals such as Glauconite, Graphite, Potash, etc.
- Tax on unexplained cash credits, unexplained investments, unexplained assets, unexplained expenditure etc. is rationalised from the existing rate of 60 per cent to 30 per cent but made subject to penalty provisions.
- Entities engaged in non-life insurance business permitted to claim deduction of expenditure earlier disallowed due to non deduction or non-payment of TDS, in the year in which such TDS is subsequently deducted and paid.

International Financial Services Centre (‘IFSC’)

Extension of tax holiday period for IFSC unit and Offshore Banking Unit (‘OBU’)

- The tax holiday period for IFSC unit extended from ten consecutive years out of fifteen years to twenty consecutive years out of twenty-five years from the year of registration and for OBU, extension is from ten consecutive years to twenty consecutive years.
- The business income of IFSC units and OBUs, after the expiry of the tax holiday period, to be taxed at a concessional rate of fifteen per cent.
- The IFSC Unit and OBU would not be eligible for the tax holiday if they are formed by splitting or reconstruction or reorganisation or transfer of a business already in existence in India.

Rationalisation of terms for treasury centres in IFSC

- The deemed dividend exclusion for advances or loans between a finance company or a finance unit in an IFSC and other group entity (including the parent or principal entity of the group) have been rationalised to require that the other group entity is located in a country or territory outside India. The Central Government to notify such country or territory outside India in respect of the ‘other group entity’. The parent entity or principal entity of the group to be listed on a stock exchange in a country or territory outside India as may be notified by the Central Government.
- The term ‘group entity’ to have the meaning as assigned under the International Financial Services Centres Authority (Payment Services) Regulations, 2024. In addition, a ‘parent entity’ or ‘principal entity’ is defined as an entity of which other group entities are subsidiaries, and which either exercises or controls more than one half of the total voting power, on its own or together with its subsidiaries, or controls the composition of the board of directors.

Tax Deduction at Source (‘TDS’) and Tax Collection at Source (‘TCS’)

Rationalisation of TCS rates

Sr. No.	Nature of Receipt	Current Rate	Proposed Rate
1	Sale of alcoholic liquor for human consumption	1 per cent	2 per cent
2	Sale of tendu leaves	5 per cent	2 per cent
3	Sale of scrap	1 per cent	2 per cent
4	Sale of minerals, being coal or lignite or iron ore	1 per cent	2 per cent
5	Remittances under the Liberalised Remittance Scheme (LRS) of an amount or aggregate of the amounts exceeding ten lakh rupees	a) 5 per cent for purposes of education or medical treatment. b) 20 per cent for purposes other than education or medical treatment.	a) 2 per cent for purposes of education or medical treatment. b) 20 per cent for purposes other than education or medical treatment.
6	Sale of overseas tour program package including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	a) 5 per cent of amount or aggregate of amounts up to ten lakh rupees. b) 20 per cent of amount or aggregate of amounts exceeding INR10 lakhs.	2 per cent without any threshold

Rationalisation of TDS/TCS provisions

- ‘Supply of manpower to a person to work under his supervision, control or direction’ included in the definition of ‘work’ and payments to contractor for the same to attract TDS at applicable rate.
- The guidelines issued by the Central Board of Direct Taxes (‘CBDT’) to remove difficulties in giving effect to provisions of TDS/ TCS chapter would be binding on Income Tax Authorities and on the person liable to deduct or collect income-tax.

Other TDS/TCS provisions

- Small taxpayers/ payees given an option to file the application for issuance of certificate for lower or nil deduction of income-tax electronically before the prescribed income-tax authority.
- Eligible investors (resident individuals/ HUFs) having income below the maximum amount not chargeable to tax, can now file a declaration with the depository for non-deduction of TDS in respect of income from units of a mutual fund, interest income from securities and dividends provided that such units or securities are held with such depository and such securities are listed on a recognised stock exchange. Depository to submit such declaration to the Income Tax Authority on quarterly basis [effective 1 April 2027].

Compliance related amendments

Return of income

- The due date for filing the income tax return has been extended to 31 August for the following categories of taxpayers who are not liable to file a transfer pricing audit report:
  - Taxpayers having income from profits and gains of business or profession whose accounts are not required to be audited under the 2025 Act or any other law in force.
  - Partner of a firm whose accounts are not required to be audited under the 2025 Act or any other law in force.
- The time limit for filing a revised return of income has been extended to 12 months from the end of the relevant financial year, as compared to the existing limit of 9 months. A fee INR1,000 or INR5,000, as applicable, would be payable where such revised return is filed beyond the existing nine months period from the end of the financial year.
- The eligibility to file an updated return is extended to the following cases:
  - Where a taxpayer has furnished an original return of loss and the updated return has the effect of either reducing the loss or reporting an income.
  - Where reassessment proceedings have been initiated; additional tax payable will be increased by a further sum of 10 per cent of aggregate tax liability.

Assessment/ Reassessment

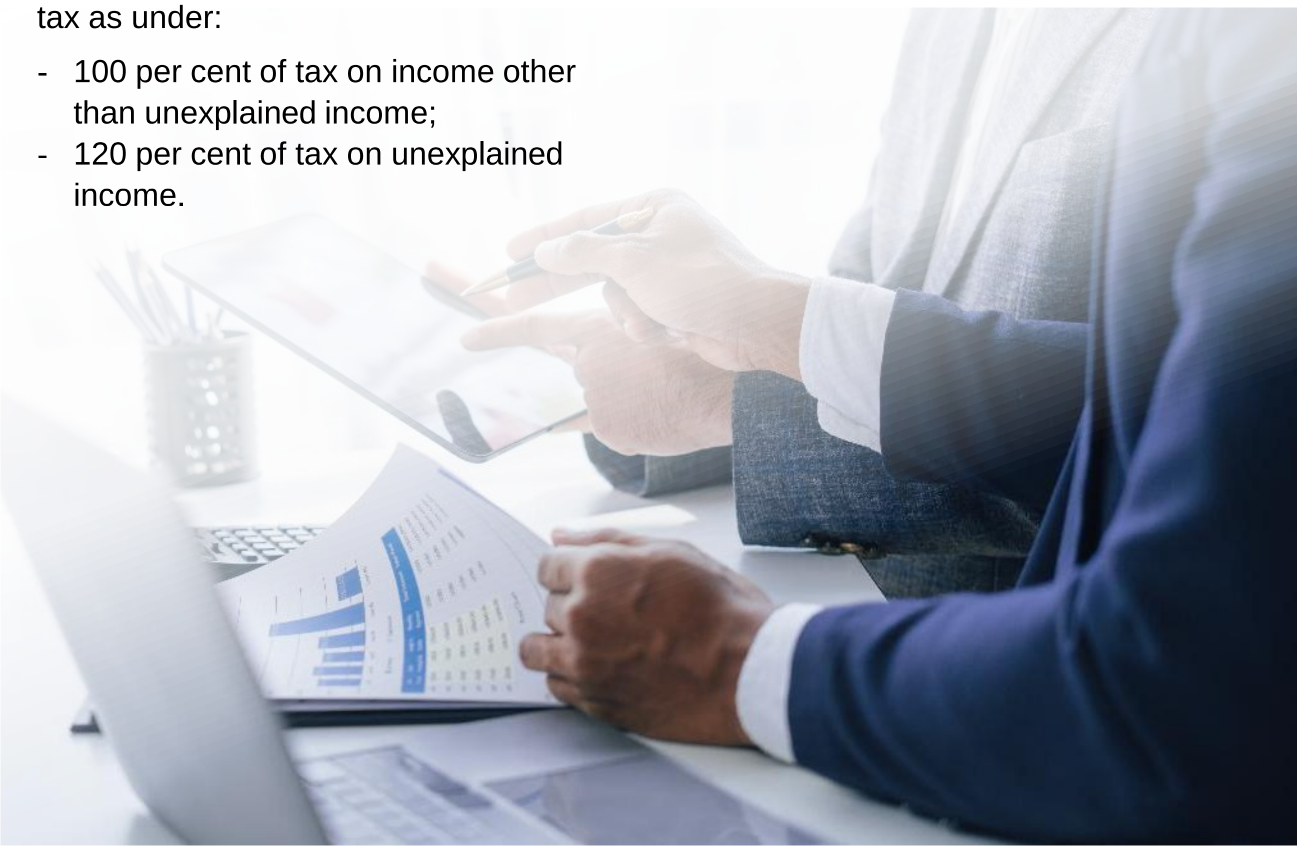
- From 1 April 2001, the Authority to issue reassessment notice vested with the Jurisdictional Assessing Officer and accordingly, reassessment order / proceedings basis such notice by the National Faceless Assessment Centre to be construed as valid and in accordance with law.
- From 1 April 2009, the extended timelines for passing final orders for assessment / reassessment / search cases, after draft orders which are referred to or eligible to be referred to the Dispute Resolution Panel, made to prevail over the normal timelines. Accordingly, such order/ proceedings to be construed as valid and in accordance with law.
- From 1 October 2019, an assessment order will not be construed as invalid merely on account of any mistake, defect, or omission in quoting the Document Identification Number ('DIN'), provided the order is referenced through any computer-generated DIN in any manner.
- Income-tax return to be processed for intimation without any disallowance of tax holiday claimed by a Special Economic Zone ('SEZ') unit.
- Updated return can now be filed even in a case where reassessment notice is issued, subject to payment of incremental additional tax at the rate of 10 per cent of aggregate of tax and interest on additional income. The additional income disclosed in such updated return would not be subject to imposition of penalty.
- The quantum of pre-payment prior to appeal with respect to demand raised on completion of assessment (with penalty proceedings) is to be reduced from 20 per cent to 10 per cent and will continue to be calculated only on core tax demand.

Penalty provisions

- Penalty to be imposed for under reporting of income concurrently with the assessment proceedings, with such penalty forming part of the demand raised. However, interest for non payment of the penalty would be levied only after the disposal of the first appeal proceedings [CIT(A)/ ITAT].
- The scope of misreporting of income widened to include unexplained sources [i.e., unexplained credits, unexplained investment, unexplained asset, unexplained expenditure etc.].
- Under the 1961 Act, the provisions for waiver/immunity from penalty and prosecution extended to cases of misreporting of income, subject to payment of 100 per cent of additional tax thereon. No immunity can be sought, in case prosecution proceedings are already initiated.
- Under the 2025 Act, penalty for misreporting of income at the rate of 200 per cent of tax is now eligible for immunity subject to payment of additional tax as under:
  - 100 per cent of tax on income other than unexplained income;
  - 120 per cent of tax on unexplained income.
- Penalty for various non-compliances has been converted into fee and will be payable without any order passed by the Income Tax Authorities:

Sr. No.	Contravention	Fee
1	Non-filing of tax audit report	INR75,000 to INR150,000
2	Non-filing of Transfer Pricing Certificate	INR50,000 to INR100,000
3	Non-filing of a Statement of Financial Transactions (SFT) within the original due date	INR200/day, subject to maximum of INR100,000
4	Non-filing of SFT pursuant to notice issued by tax department	INR1,000/ day, subject to maximum of INR100,000

- The power of Dispute Resolution Committee (‘DRC’) has been extended to waive penalty imposed.



Rationalisation of prosecution proceedings

- The prosecution provisions with respect to various contraventions under the 1961 Act and the 2025 Act (e.g. search, seizure, evasion of tax recovery, default in depositing TDS/TCS, failure to furnish returns/ statements, etc.) have been rationalised with an intention to reduce litigation and ease compliance for taxpayers.
- The key amendments are as under:
  - Replace rigorous imprisonment with simple imprisonment.
  - Capping of maximum imprisonment at 2 years (and 3 years for repeat offences).
  - Re-grade punishment in proportion to tax evaded.
  - Remove imprisonment where tax evaded is up to INR10 lakhs.
  - Permit fines in lieu of or in addition to imprisonment.
  - Fully decriminalize minor offences.

Other provisions

- The Annual value of property held as stock-in-trade to be taken as nil upto two years from the end of the financial year in which certificate of completion of construction is obtained from the competent authority.
- The due date for payment of employees' contribution to statutory fund by Employers for claiming of deduction extended from the statutory due date to the due date of filing return of income.
- The eligible assessee who can avail presumptive taxation regime to include those who have claimed tax benefits under the SEZ scheme.
- Any amount allowed as deduction or included in the total income under the 1961 Act would be deemed to be the income under the 2025 Act, if it was required to be added in the total income under the repealed 1961 Act.
- Requirements for obtaining of Permanent Account Number ('PAN') / quoting of PAN in documents, is expanded to include not only transactions related to business or profession but also to other transactions, whose value is likely to exceed INR5 lakhs in a tax year.

Indirect Tax

Goods and Services Tax

Post-sale discounts and credit notes

- An amendment to Section 15(3) of the CGST Act proposes to remove the requirement of linking post-supply discounts with agreement and relevant invoices.
- Additionally, provisions related to issuance of credit notes proposed to be amended to include reference to post-supply discounts.
- Change effective from a date to be notified.

GST refunds on inverted duty structure and export of goods

- The benefit of provisional refund of 90 per cent of the refund amount presently available in respect of zero-rated supplies of goods and services, has been proposed to be extended to refund claims arising due to inverted duty structure.
- Proposal to remove the threshold limit of INR1,000 for refund claims relating to export of goods with payment of tax.
- Change effective from a date to be notified.

National Appellate Authority for Advance Ruling ('NAAAR')

- Proposal to enable the Government to authorise an existing authority to hear appeals until the NAAAR is set up. The existing authority to include a Tribunal.
- Change effective from 1 April 2026.

Place of supply for 'Intermediary Services'

- Proposal to amend place of supply provisions for intermediary services from location of supplier to location of the recipient; enabling benefits of zero-rated supply for such services provided from India to a recipient outside India.
- Change effective from the date of receiving the assent of the President of India.

Customs

1. **'Trusted Trader' Facilitation**
   a. **Deferred duty payment** extended to trusted manufacturers – improving liquidity and cash flow:
      i. Duty deferral period for Authorised Economic Operator ('AEO') Tier-2 & Tier-3 extended to 30 days.
      ii. 'Eligible Manufacturer Importers' recognized as a new category to enjoy similar duty deferral till 31 March 2028 with prior approval.
   b. **Automatic Goods Registration and Automatic OOC ('Out-of-Charge')** on arrival for specified categories of importers when goods have no regulatory compliances.
2. **Digital and System-Driven Customs**
   a. **New Customs Integrated System ('CIS')** as a unified, digital customs platform enabling single touch point for trade; progressive roll out within 2 years.
   b. **Pilot integration** on SWIFT 2.0 portal by five Partner Government Agencies ('PGA'); to be completed by 31 March 2026.
   c. **Deployment of non-intrusive scanning** of import cargo using advanced imaging and AI technology to strengthen border security with minimal trade disruption.
3. **Trust-based Governance**
   a. **Customs Advance Ruling** validity extended from 3 years to 5 years, with legacy rulings being granted such extension upon request from applicant.
   b. **Time-bound payment of 15 per cent penalty** following issuance of Show Cause Notice, to be deemed as 'charge for non-payment of duty'.
4. **Enhanced Warehousing & Bonded Zone Flexibilities**: Operator-centric tech-driven system based on self-declaration for movement of goods between Customs bonded warehouses
5. **Exporter-Focused Reforms**
   a. **Courier exports** without value threshold, relaxed return and rejects processing.
   b. **Extended export period for leather & textile exporters** using duty-free inputs extended from 6 months to 1 year.
6. **Tariff simplification**
   a. Notification benefit on 54 entries incorporated into Customs Tariff
   b. 33 new entries created in Customs Tariff to continue the existing notification benefit.
7. **Ease of Living – Personal Imports**
   a. Tariff on dutiable personal use goods reduced from 20 per cent to 10 per cent.
   b. New Baggage Rules, 2026 to consolidate multiple older regulations and create a single comprehensive framework.

Sector-Specific Trade Boosters

1. **Aerospace and Defence**
   a. Zero duty on components and parts for manufacturing and maintenance, repair & overhaul ('MRO') of civilian, training, and defence aircraft.
2. **Automotive**
   a. Extension of duty exemption sunset clause by 2 years for selected inputs required for EV battery value chain.
   b. Specified rare-earth metal compounds exempt from duty.

3. **Capital Goods, Machinery & Industrial Equipment**
   a) Import duty exemptions on multiple capital goods categories.
   b) New schemes for tool rooms, construction & infrastructure equipment.
4. **Chemicals & Petrochemicals**
   a) Duty increases on certain chemicals (e.g., potassium hydroxide) to promote domestic manufacturing.
   b) New Chemical Parks to scale manufacturing and reduce imports.
5. **Critical Minerals**
   a) Zero duty on capital goods for processing critical minerals.
   b) New Rare Earth Corridors; scheme for permanent magnets.
6. **Electronic Goods and Consumer Appliances**
   a) Duty-free import of specific inputs for Microwave Oven manufacturing.
   b) Schemes to deepen local electronics components manufacturing.
7. **Footwear-Upper Exporters**
   a) Duty-free import of specified inputs extended to manufacture and export of footwear uppers.
8. **Marine / Fisheries**
   a) Duty-free status for fishing activity beyond territorial waters and catch brought into India.
   b) Export status for such fish delivered to a foreign port.
   c) Duty-free import limit of inputs increased from 1 per cent to 3 per cent of prior year's export FOB value.
9. **Nuclear Power Equipment**
   a) Duty exemption extended until 2035 for all nuclear power project imports.
10. **Pharmaceuticals, Biopharma & Rare Diseases**
    a) Duty exemption on 17 new cancer drugs.
    b) Duty-free 'personal use' imports for seven new rare-disease treatments.
11. **Renewable Energy & Green Tech (Solar, Battery Storage, EV Components)**
    a) Duty free import of capital goods for manufacturing Lithium-ion cells for Battery Energy Storage Systems ('BESS').
    b) Zero duty on sodium antimonate used in solar glass.
12. **Special Economic Zones ('SEZs')**
    a) SEZ units to be allowed sale of goods to Domestic Tariff Area ('DTA') at concessional duty, changes to be notified.

Other Legislation

Revision of National Calamity Contingent Duty ('NCCD')

- Amendment to the Seventh Schedule to the Finance Act, 2001, is proposed with effect from 1 May 2026, to revise the NCCD tariff rates applicable to chewing tobacco, *jarda* scented tobacco and other similar products including gutkha. The effective rate will remain unchanged at 25 per cent.

Excise duty relief for biogas-blended CNG

- Proposal to remove the biogas/CBG component and related taxes from the transaction value for applicability of excise duty on biogas-blended CNG.

Deferment of date of implementation of higher excise duty on sale of unblended diesel

- Implementation of the additional excise duty of INR2 per liter on unblended diesel is deferred until 31 March 2028.

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