India Union Budget 2026-27

Point of view

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Automotive and Industrial Manufacturing

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The Union Budget 2026–27 sets a constructive tone for India's Industrial Manufacturing and Automotive sectors, driven by a sharp rise in public capital expenditure and strengthened focus on localisation, MSME capability building, and technology-led competitiveness. Higher infrastructure spending, new industrial corridors, and digital cargo-clearance mechanisms are expected to stimulate demand across capital goods, metals, logistics, and construction, while India Semiconductor Mission 2.0 underscores the push to build resilient supply chains and deepen domestic value addition. For the automobile sector, the Budget reinforces long-term competitiveness through customs duty exemptions for lithium-ion cell manufacturing, continued PLI support, and incentives for EV and charging infrastructure, strengthening the transition from adoption-led growth to deeper manufacturing. These measures collectively deepen global value-chain integration, reduce input-cost pressures, and accelerate innovation-led productivity. The sector is thus well-positioned for India's next leap toward global manufacturing leadership, supporting the nation's broader journey toward *Viksit Bharat@2047*.

Key announcements for the sector

Direct Taxes

I. Corporate Tax

- Rationalisation measures:
  - Reduction in Minimum Alternate Tax (MAT) rate from 15 per cent to 14 per cent and changes to MAT credit system. Furthermore, Set-off and carry forward of existing MAT credit now only allowed under the new corporate tax regime (25.168 per cent with limited exemptions), capped to 25 per cent of the tax liability
  - Certain penalties for technical non-compliance (such as audit/reporting lapses) are converted into fees to reduce litigation
  - Minor TDS/TCS failures decriminalised
  - 'Rigorous imprisonment' replaced with 'simple imprisonment'; monetary thresholds introduced
  - 'Pay-and-close' mechanism: full immunity from penalty/prosecution if taxpayer pays and does not appeal.
    - Deposit of PF/ESI Contributions - Deduction allowed if deposit made on or before return filing due date
    - Due dates revamped for various categories of taxpayers; revised return due date extended to 31 March of the following financial year
    - Statutory timeline to issue the final assessment order excludes time provided for proceedings before the Dispute Resolution Panel, where applicable *(retrospective clarification)*
    - Assessment order not invalid due to mistake/omission in DIN quoting, as long as DIN is referenced, overriding contrary court rulings *(retrospective clarification)*
    - Jurisdictional assessing officer ('AO'), and not the faceless AO, has the authority to issue notices for initiating reassessment *(effective from 1 April 2021)*

- Penalty will now be incorporated within the assessment order itself; no separate penalty proceedings. Additionally, no interest to apply on penalty amount till conclusion of first appeal and the pre-deposit requirement drops from 20 per cent to 10 per cent of core tax
- Introduced electronic mechanism for automated lower TDS/nil certificates; payers must accept certificates from AO or prescribed authority
- Income Computation and Disclosure Standards (ICDS) proposed to be integrated with Ind AS (Indian IFRS equivalent) based on inputs from a Joint Committee. Separate accounting requirement based on ICDS proposed to be discontinued from the FY 2027-28
- Clarification that supply of manpower falls within the definition of 'work' and thus, TDS rate of 1 per cent/2 per cent applies (effective from 1 April 2026)
- Proposal to exempt the income of a foreign company arising from the provision of capital goods, equipment or tooling to an Indian contract manufacturer located in a customs bonded area (under section 65 of the Customs Act, 1962), where such manufacturer produces goods on behalf of the foreign company (to be available up to tax year 2030-31)
- Buyback proceeds will be taxed as capital gains from FY 2026–27, instead of being treated as dividend income under current rules. Promoters will face an effective tax rate of 30 per cent, while domestic promoter companies will be taxed at 22 per cent on such gains from 1 April 2026, impacting buybacks of listed long-term, unlisted long-term, and listed short-term shares.

II. Transfer Pricing

- Proposed rationalised safe harbour framework and fast-tracked Unilateral APA process for IT service companies - Captive engineering and support centers embedded within the sectors may potentially benefit (rules awaited)
- Associated Enterprises of an entity entering APA also allowed to file modified returns, to enable claiming refund of any additional taxes paid by it or withheld from its income (effective 1 April 2026)
- Failure to obtain TP report (Form 3CEB): INR50,000 for delay up to one month and INR100,000 thereafter.

Indirect Taxes

III. Goods and Services Tax ('GST')

- Change in the place of supply for 'intermediary services' from location of supplier to location of the service recipient (effective from the date of Presidential Assent to Finance Act)
- Removal of condition of linking the credit notes for post-sale discount with pre-existing agreement. Such adjustment would be subject to reversal of input tax credit by the recipient (effective from a date to be notified)
- Facility of provisional refund (90 per cent of amount claimed) extended to refunds arising on account of inverted duty structure (effective from a date to be notified)
- Removal of the threshold limit of INR1,000 for sanction of refund claims in cases of export of goods with payment of tax (effective from a date to be notified)
- Pending the constitution of the National Appellate Authority for Advance Ruling (NAAAR), the Central Government has been empowered to notify an existing Authority, including a tribunal, to hear appeals arising from conflicting advance rulings to ensure consistency and greater certainty for taxpayers (effective from 1 April 2026).

IV. Trade and customs

- The duty deferral period for tier two and tier three Authorised Economic Operators (AEOs) to be increased from 15 days to 30 days (effective from 1 March 2026)
- Proposal to provide five-year validity for Customs Advance Rulings (earlier three years). Existing rulings shall also be extended for five years from the date of the ruling, on request
- Proposal to allow movement of goods from one bonded warehouse to another without prior permission of officer
- Introduction of 'Eligible Manufacturer Importer' as a new class permitted to avail the deferred-payment facility for import duty up to 31 March 2028 (effective from 1 March 2026)
- Extension of benefit under Deferred Payment of Import Duty Rules, 2016, by allowing duty payments to be made monthly from the existing 15 days' period
- Existing BCD exemption for capital goods used in the manufacture of lithium-ion cells for Electric Vehicles has been extended to also cover manufacture of lithium-ion cells for Battery Energy Storage Systems (BESS) (effective 2 February 2026), supporting the broader energy transition ecosystem
- Multiple new tariff lines added, obsolete entries deleted, and several goods shifted from exemption notifications to the First Schedule, with effective dates from 2 February 2026/1 April 2026/1 May 2026, depending on the item (Details of key changes are enclosed as Annexure)
- Penalty paid under Section 28(5) of Customs Act,1962 on determination under Section 28(6) of the Customs Act, 1962 by proper officer shall be deemed to be a charge for non-payment of duty
- Proposal to allow SEZ manufacturing units to make DTA sales at concessional rate up to a prescribed proportion of exports (Rules/Notifications are awaited).

Implications for the sector

- The Union Budget 2026-27 advances India's manufacturing led growth agenda with a strong focus on strengthening MSME driven supplier ecosystems, reducing logistics and cost pressures, and enabling localisation of critical technologies directly impacting competitiveness and scalability of the industrial manufacturing and automotive sectors. The semiconductor and incentives push are timely and necessary, but its success will depend on strong governance, ethical decision making under pressure and data driven compliance controls. Hence, it is important to keep a focus on adequate preventive measures to ensure transparent, effective and sustained outcomes.

- Initiatives aimed at accelerating manufacturing sector progress include:

Initiatives	Objective
Strengthening electronics and semiconductor manufacturing	Through ISM 2.0, strong support is being extended for domestic manufacturing of semiconductors and electronics critical to EVs, ADAS, power electronics, and factory automation, accelerating the shift from assembly led growth to higher value addition in the IM and automotive sectors.
Promoting domestic capital goods and infrastructure equipment manufacturing	Targeted incentives and high-tech tool room investments in industrial and construction equipment are expected to reduce import dependence while accelerating scalable capacity expansion across the industrial manufacturing and automotive sectors.
Sustained infrastructure focus and logistics investments	New dedicated freight corridors, inland waterways, and coastal shipping will be built, which are expected to reduce logistics costs, improve supply chain efficiency.
Strengthening the EV and future mobility ecosystem	Duty relief and exemptions on key battery inputs and electronic components are expected to lower import reliance and accelerate localisation across battery cells, modules, and the EV supply chain.
Securing critical inputs through development of rare earth and critical mineral corridors	Improved access to critical minerals for EVs, electronics, and advanced manufacturing will further strengthen India's position across the EV value chain.
Simplification of customs process	Given India's ongoing reliance on imports, this simplification will deliver substantial benefits by materially enhancing logistics efficiency and easing the sourcing of materials.
MSME support	Expanded access to equity via the *SME Growth Fund* and the *Self-Reliant India Fund*, along with institutionalised liquidity through TReDS, automotive and industrial supply chains. This will enable investments in automation, scale up, quality improvement, and technology adoption.
Corporate Mitras	Rollout of Corporate Mitras at the cluster level will enhance MSME capabilities in compliance, digital onboarding, governance, and ESG readiness, broadening and deepening supplier ecosystems beyond traditional Tier I manufacturing hubs.

Annexure – Tariff amendments and exemption shifts

- Additions to entries under **Notification No. 45/2025 – Customs dated 24 October 2025** altering effective BCD, applicable from **2 February 2026.** Key products include:
  - — Sodium antimonate for use in manufacture of solar glass from 7.5 per cent to Nil
  - — All goods for generation of nuclear power from 7.5 per cent to Nil
  - — Control and Protector Absorber Rods and Burnable Absorber Rods, for generation of nuclear power from 7.5 per cent to Nil
  - — Specified goods for use in the manufacture of Microwave Ovens falling under tariff item 8516 50 00 from applicable rates to Nil.
- Conditional exemptions/concessional duty rate entries under **Notification No. 45/2025 – Customs dated 24 October 2025**, originally expiring on **31 March 2026**, extended to **31 March 2028**. Key products include:
  - — Specified goods for use in the manufacture of Brushless Direct Current (BLDC) motors
  - — Moulds, tools and dies, for the manufacture of parts of electronic components or electronic equipment
  - — Parts of catalytic converters and goods for use in the manufacture of catalytic convertors or its parts
  - — Ceria zirconia compounds for use in the manufacture of wash coat for catalytic converters
  - — Cerium compounds for use in the manufacture of wash coat for catalytic converters
  - — Machinery, electrical equipment, other instruments and their parts except populated PCBs for use in fabrication of semiconductor wafer and Liquid Crystal Display
  - — Machinery, electrical equipment, other instruments and their parts except populated PCBs for use in assembly, testing, marking and packaging of semiconductor chips
  - — Specified goods for the manufacture of certain goods and their parts
  - — Parts, components and accessories except Lithium-ion cell and PCBA for use in manufacture of Lithium-ion battery and battery pack
  - — Inputs, parts or sub-parts for use in the manufacturing of PCBA of Lithium-ion battery and battery pack
  - — Open cell for use in the manufacture of LCD and LED TV panels
  - — Specified goods for use in the manufacture of LCD and LED TV panels
  - — Magnetron of up to 1.5 KW used for the manufacture of domestic microwave ovens
  - — Parts, sub-parts, inputs or raw material for use in manufacture of Lithium-ion cells
  - — Lithium-ion cell for use in manufacture of battery or battery pack in products including cellular phone, Electric Vehicle (EV), hybrid motor vehicles
  - — Ferrous scrap.
- Certain changes made in the First Schedule of the Customs Tariff Act, 1975 effective **1 May 2026**, without any impact on the applicable duty rates. Illustrative changes include:
  - — Battery separators have been included in the tariff under heading 8507 90 20, with a specified BCD rate of 5 per cent
  - — Parts suitable for use solely or principally with the apparatus of headings 8525, 8526, or 8527 have been included in the tariff under subheadings 8529 10 93 and 8529 90 30, with a specified BCD rate of 10 per cent - Sunset clause that was earlier applicable until 31 March 2026 also removed.
- Some conditional exemption entries under **Notification No. 45/2025 – Customs dated 24 October 2025** to lapse on **31 March 2026**, such as those relating to **metal parts for use in the manufacture of electrical insulators**
- Existing BCD exemption for capital goods used in the manufacture of lithium-ion cells for Electric Vehicles has been extended to also cover manufacture of lithium-ion cells for Battery Energy Storage Systems (BESS) *(effective from 2 February 2026)*, supporting the broader energy transition ecosystem.

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