India Union Budget 2026-27

Point of view

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Building, Construction and Real Estate

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Key announcements for the sector

- The Union Budget 2026-27 has laid significant emphasis on Industrial Development, Infrastructure, Urban and Tourism Development as key priority areas and the same shall have a noteworthy bearing on the real estate sector with residential, commercial, industrial/ manufacturing, tourism and hospitality segments as strong beneficiaries.

Infrastructure development initiatives

- Key infrastructure development initiatives under the budget include:
  - — Proposal to increase CAPEX towards infrastructure from INR 11.2 lakh crore in FY2025-26 to INR 12.2 lakh crore for FY2026-27 showcasing continued focus towards infrastructure led growth with public investment as the key engine for boosting economic activity
  - — To strengthen infrastructure in Tier-2 and Tier-3 cities with populations above 5 lakhs, recognising them as emerging economic hubs that require enhanced mobility, utilities and urban amenities to support expansion
  - — Proposal to develop seven high-speed rail corridors linking Mumbai–Pune, Pune–Hyderabad, Hyderabad–Bengaluru, Hyderabad–Chennai, Chennai–Bengaluru, Delhi–Varanasi, and Varanasi–Siliguri to serve as high-impact 'growth connectors' enabling faster inter-city mobility
  - — Proposal to create City Economic Regions (CERs) across Tier-2, Tier-3 cities and temple towns, with each region receiving INR 5,000 crore over five years through a challenge-based, reform-linked framework to upgrade infrastructure and accelerate their emergence as regional economic hubs
  - — Proposal to set up an Infrastructure Risk Guarantee Fund to provide partial credit guarantees to lenders, and to strengthen the confidence of private developers regarding risks during infrastructure development and construction phase
  - — Continued focus on monetisation and recycling significant real estate assets of Central Public Sector Enterprises (CPSEs) through the setting up of dedicated REITs.

Industrial development initiatives

- Focus on scaling up manufacturing through targeted initiatives across biopharma, electronics, rare earths, textiles, chemicals, and capital goods sector and proposed following schemes.
  - — Biopharma SHAKTI, with an outlay of INR 10,000 crore over five years, aims to position India as a global hub for biologics and biosimilars manufacturing, while the Electronics Components Manufacturing Scheme outlay is proposed to increase to INR 40,000 crore from INR 22,000 crore in FY2025-26
  - — The Rare Earth Permanent Magnets Scheme has been extended to mineral-rich states to develop dedicated Rare Earth Corridors spanning mining, processing, research, and manufacturing
  - — Mega Textile Parks are proposed in challenge mode, with a focus on technical textiles catering to healthcare, infrastructure, and industrial applications

- Proposal to establish three Chemical Parks on a cluster-based, plug-and-play model to strengthen domestic chemical manufacturing and reduce import dependence
- To enhance competitiveness, a scheme has been proposed to revive 200 legacy industrial clusters through infrastructure and technology upgradation
- Additionally, a Scheme for Enhancement of Construction and Infrastructure Equipment (CIE) has been proposed to promote domestic manufacturing of high-value, technologically advanced equipment such as elevators, firefighting systems, and tunnelling machinery.

Tourism development initiatives

- Emphasis on tourism and infrastructure-led economic development, with a focus on healthcare, eco-tourism, heritage, and regional connectivity
  - Launch of a scheme to establish five Regional Medical Hubs in partnership with the private sector
  - Proposal to develop 15 archaeological and heritage sites into experiential cultural destinations
  - Announcement of an integrated East Coast Industrial Corridor and development of five tourism destinations across the Purvodaya States
  - Launch of a scheme for the development of Buddhist Circuits across North-Eastern states, covering temple preservation, pilgrimage infrastructure, visitor amenities, and improved connectivity.

Urban development initiatives

- With an aim to boost infrastructure financing, an INR 100 crore incentive is proposed for municipal corporations issuing a single bond of over INR 1,000 crore. The existing AMRUT incentive scheme, which supports smaller municipal bond issuances up to INR 200 crore, will continue operating alongside the new measure thereby supporting smaller and medium towns
- Central government to support states towards development of five University Townships located near major industrial and logistics corridors through a challenge-route mechanism to augment social infrastructure and bolstering the talent ecosystem.

Implications for the sector

Infrastructure-led expansion to unlock Real Estate Demand

- The sustained increase in infrastructure CAPEX, improved inter-city connectivity, and creation of City Economic Regions are expected to unlock new real estate growth corridors, particularly across Tier-2 and Tier-3 cities. The development of seven high speed rail corridors shall enhance regional connectivity and unlock transit-oriented corridor led growth within the real estate sector
- Measures such as Infrastructure Risk Guarantee Fund and CPSE asset monetisation via REITs shall improve private capital participation and enhance liquidity within the infrastructure and real estate sector.

Sector-focused schemes to scale Manufacturing Ecosystems

- Expanded push across biopharma, electronics, chemicals, rare earth, textile and CIE segment along with revival of 200 legacy industrial clusters across India shall drive sustained demand for industrial land, R&D facilities and warehousing asset class across such clusters
- These measures are expected to strengthen the long-term outlook for the industrial and logistics sector across India, boosting economic activity and creating new real estate opportunities across key regions.

Hospitality sector set to gain from focus on Medical Tourism, Heritage and Spiritual Tourism

- The government's tourism focused initiatives are expected to catalyze demand within the hospitality industry across key corridors. The development of regional medical hubs shall accelerate growth in medical tourism, thereby creating opportunities for wellness centric hospitality led developments
- Upgradation of archaeological and heritage sites across India and dedicated focus towards spiritual tourism across North-East region shall further augment opportunities within the hospitality segment supporting long-term regional development.

Direct & Indirect Taxes - Key announcements for the sector

- Buy-back Taxation
  - In relation to the taxation of buybacks, the Finance Bill 2026 marks a reversal of approach, with buyback proceeds once again being taxed as capital gains rather than dividend in the hands of shareholders or holder of specified securities
  - This is akin to the position that prevailed prior to the introduction of the recent buyback tax regime in 2024
  - In addition, buy-back proceeds received by promoters will attract an additional levy, resulting in an effective tax rate of 22% for domestic corporate promoters and 30% for non-corporate promoters including non-resident corporates.
- Ease in compliance for NRI property transaction
  - Resident buyers are no longer required to obtain Tax deduction Account Number (TAN) while making payment for purchase of property from non-residents. Taxes deducted can now be deposited using buyer's Permanent Account Number (PAN) itself, making the property transactions easier.
- Clarificatory amendment regarding capital gains tax exemption on compulsory acquisition of land
  - Under the CBDT Circular No. 36/2016, compensation received for compulsory acquisition of land under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR) was exempt from tax
  - As the 1961 IT Act provided the exemption through the above circular, the 2025 IT Act has now been amended to formally codify a specific statutory exemption.
- TDS relief for entities supplying manpower services
  - Supply of manpower services is now proposed to be classified as works contract services and be subject to tax deduction at applicable rate of 1% or 2%. This amendment removes the earlier ambiguity that often resulted in the application of a higher tax-deduction rate.
- Key changes proposed under GST laws
  - Section 15(3) of the CGST Act is proposed to be amended to delink post sale discounts from the requirement of a prior agreement or arrangement at or before the time of supply. The amendment clarifies that post sale discounts may be given effect through issuance of credit notes under section 34, subject to the condition that the recipient reverses the corresponding input tax credit attributable to such discount and credit notes are issued within the time frame
  - Provisional refund mechanism enabled for refund of input tax credit under the inverted duty structure mechanism
  - The place of supply for intermediary services has been amended from the location of supplier of services to location of recipient of services.

- Key changes proposed for Customs
  - 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
  - Advance Ruling shall remain valid for 5 years (as against the earlier period of 3 years) or till there is a change in law or facts on the basis on which advance ruling has been pronounced (whichever is earlier)
  - The Government will roll out Customs Integrated System (CIS) in 2 years as a single, integrated and scalable platform for all the customs processes
  - In order to facilitate smoother and faster movement of goods during customs clearance, duty-deferral period for Tier 2 and Tier 3 Authorized Economic Operators (AEO) has been extended from 15 to 30 days. Eligible manufacturer importers to get the same duty deferral facility
  - For goods not having any compliance requirement, Customs will clear imports immediately after online registration, subject to duty payment.

Implications for the sector

- Misalignment with SEBI provisions
  - To ease participation constraints and potentially enhance secondary market liquidity, SEBI has proposed that, effective 1 January 2026, investments by Mutual Funds and Specialized Investment Funds (SIFs) in Real Estate Investment Trusts (REITs) be classified as equity-related instruments
  - However, the 2025 Income-tax Act does not include corresponding amendments to the definition of an equity-oriented fund. As a result, unit holders of equity-oriented funds with significant exposure to REITs may face a higher tax burden.

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