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India Union Budget 2026-27

Point of view

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Energy, Natural Resources and Chemicals

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Key announcements for the sector

The Hon'ble Finance Minister presented the India Union Budget 2026 before the Parliament 1 February 2026.

Budget focusses on providing ease of doing business, provides targeted rationalisation measures and extends incentive and certainty to investor in key focus areas – digital governance, exploration and refining of critical minerals and IFSC.

Some of the specific call outs in the budget for the energy basket are –

- Reduction in basic custom duty rates for boosting domestic manufacturing of critical components in the energy supply chain and setting up nuclear energy plants
- Allowing deferred deduction for expenditure incurred on prospecting and exploration of certain critical minerals will support mining of critical minerals
- Extension of tax certainty to foreign companies on procuring data center services will invite long term FDI in data center space and will boost complimentary investments in clean energy sector
- Safe-harbour rationalization for transfer pricing will have a play in making India a preferred destination for GCC operations by energy companies
- Proposal to review the Foreign Exchange Management (Non-debt Instruments) Rules to create contemporary, user-friendly foreign investment framework aligned with India's current economic priorities indicating Government's vision to reduce friction in attracting foreign investment.

Incentives/policy update

- A scheme to support states in setting up three dedicated chemical parks through a challenge-based route, on a cluster-based, plug-and-play model, aimed at enhancing domestic chemical production and reducing import dependence
- A Carbon Capture, Utilisation and Storage (CCUS) scheme with an outlay of INR20,000 crore over five years, covering power, steel, cement, refineries and chemicals
- Support for Odisha, Kerala, Andhra Pradesh and Tamil Nadu to establish dedicated Rare Earth Corridors for mining, processing, research and manufacturing, building on the Rare Earth Permanent Magnet initiative
- Demand led opportunity to accelerate clean fuels and clean energy with the thrust on data centres and chemical parks. Data centres are energy guzzlers and would need large amounts of energy, specifically clean energy since green data centers is a big theme. Similarly for chemical parks, the opportunity is to make this ab-intio green, with green electricity, green fuels such as green ammonia and green methanol which is used in chemicals. This is not stated specifically but presents an opportunity that may unravel if designed well

- Container manufacturing scheme of INR10,000 crore may also weigh in positively for BESS containerisation and needs deeper examination
- The infrastructure risk guarantee fund to provide partial credit guarantee to lenders will also be positive for the sector especially for new technologies, although details need to be seen. Equally the revamp of REC PFC would be helpful for better planned infrastructure financing.

Key direct tax proposals

The Finance Bill proposes changes both under the Income-tax Act, 1961 as well as the new Income-tax Act, 2025 (New Act effective from 1 April 2026). Simplified Income Tax Rules and Forms will be notified shortly in relation to New Act, giving adequate time to acquaint with the requirements. Summary of the key direct tax announcements and tax proposals is given below:

- Corporate tax rates and return provisions:
  - No changes proposed to the headline corporate tax rate
  - Minimum Alternate Tax (MAT) for companies:
    - No MAT to foreign companies which opt into presumptive taxation
    - MAT rate reduced to 14 per cent of book profits in the old regime
    - MAT to be made as final tax in the old regime and consequently, no new MAT credit to be allowed to be carried forward
    - Set-off of MAT credit to be allowed only in new regime to the extent of 25 per cent of the tax liability in the new regime.
  - 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 nine months subject to payment of nominal fee
  - Updated return:
    - proposal to allow filing of an updated return in cases where loss was determined in the original return. The loss cannot increase in the updated return
    - proposal to permit filing of an updated return of income even after the initiation of reassessment proceedings, provided such return is filed within the period specified in reassessment notice. Incremental income to be subjected to an additional tax of 10 per cent.
- Changes in buy back tax provisions:
  - Proposal to tax the consideration received on buy-back of securities as capital gain instead of Dividends
  - Promoters are required to pay additional tax, over and above the regular capital gains tax.
- Allowing expenditure on prospecting of critical minerals as deduction:
  - It is proposed to expand the scope of Schedule XII of the Act, which lists minerals eligible for deduction of expenditure incurred on prospecting and exploration under section 51 of the Act. The amendment includes "critical minerals" in this list.
- Promotion of data centre business and contract manufacturing:
  - Tax holiday until 31 March 2047 for foreign companies that earn income by providing cloud services to customers by using data centre services from India. Cloud services to Indian customers to be provided only through an Indian reseller entity
  - 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. The exemption is proposed to be available up to tax year 2030 31.

- Transfer Pricing:
  - Announcements relating to rationalization of Safe Harbor provisions for IT Sector (detailed rules and guidelines are awaited):
    - Wide range of services proposed to be clubbed under the category of IT Services with a safe harbor margin of 15.5 per cent
    - Threshold for eligibility to apply safe harbour increased from current INR300 crore to INR2,000 crore
    - Transfer Pricing safe harbour of 15 per cent on cost in case the company providing data centre services from India is an associated enterprise
    - Approval under rule-based automatic process without need of any examination of application
    - Once approved, safe harbor continues for a period of five years at the choice of the taxpayer.
  - Amendments to the Advance Pricing Agreement (APA):
    - Fast-tracked Unilateral APA process for IT services targeted for completion within two years (detailed rules and guidelines are awaited).
    - The Associated Enterprises of the entity entering into APA also allowed to file modified returns.
- IFSC related changes:
  - The tax holiday for IFSC units is proposed to be extended from 10 years to 20 years, with a concessional 15 per cent tax rate applicable on business income after the deduction period
  - In respect of units that start operations on or after 1 April 2026, this benefit shall be available only if it is not formed by splitting up or reconstruction or reorganisation or transfer of a business already in existence in India.

Key customs/indirect tax proposals

Customs/Indirect tax

- Goods for which new or continued exemptions granted
  - Solar manufacturing: BCD exemption for Sodium antimonate for use in manufacture of solar glass
  - Battery Energy Storage Systems (BESS): Capital goods BCD exemption extended to BESS manufacturing
  - Nuclear Plants:
    - BCD exemption extended till 2035 and expanded to all nuclear plants irrespective of capacity (currently restricted to 440 MW)
    - Exemption on all goods for generation of nuclear power falling under tariff item 8401 30 00
    - Exemption on Control and Protector Absorber Rods, Burnable Absorber Rods for generation of nuclear power falling under tariff item 8401 40 00.
  - Blended CNG: Value of biogas excluded while computing excise duty on blended CNG. Earlier only GST was excluded
  - Diesel: Implementation of the levy of additional excise duty at the rate of INR2 per litre on unblended diesel has been deferred, and the said levy shall now come into effect only from 31 March 2028, thereby extending the relief period for stakeholders dealing in unblended diesel
  - Critical minerals: BCD exemption on capital goods required for processing of critical minerals in India. BCD on few raw materials has been reduced, for monazite from 2.5 per cent to Nil.
  - Specific exemption prescribed on 'Silicon in all forms for the manufacture of undiffused silicon wafers; and un-diffused silicon wafers for the manufacture of solar cells or solar cell modules, falling under Chapter 28 or 38' to lapse on 31 March 2026. Changes introduced in customs tariff rate on 'Silicon, containing by weight not less than 99.99% of silicon' and 'Silicon, other' to prescribe BCD at Nil rate from 1 May 2026.

- Goods for which customs exemptions withdrawn or duty increased
  - Ammonium Phosphate or Ammonium nitro-phosphate
  - Naphtha for fertilizer manufacturing (0 per cent to 2.5 per cent)
  - Permanent magnets for manufacture of PM synchronous generators above 500KW for use in wind operated electricity generator
  - LPG, in excess of the quantity of petroleum gases and other gaseous hydrocarbons consumed in the manufacture of polyisobutylene by the unit located in the DTA, received from the unit located in SEZ and returned by the DTA unit to the SEZ unit from where such LPG were received (0 per cent to 5 per cent)

Generic updates

- Goods and Services Tax
  - Amendment in provisions related to post-sales discount
    - Amendment in Section 15(3) to do away with requirement of linking the post-sale discount with an agreement specifically linked to relevant invoices
    - Amendment in Section 34, to include the reference of discount referred under Section 15(3)(b) for issuing credit notes for post-supply discounts.
  - Provisional refund for inverted duty structure
    - Amendment in Section 54(6) to extend provisional refund to claims for inverted duty structure. The said change is line with the recommendations of 56th GST council meeting
  - Omit threshold for filing refund
    - Section 54(14) of the CGST Act is proposed to be amended to omit the threshold monetary limit applicable for sanctioning refund claims relating to export of goods on payment of tax
  - Place of Supply for Intermediary Services
    - Omitting Section 13(8)(b) of the IGST Act, 2017 which provides that the place of supply of the intermediary services shall be the location of the supplier of service. Therefore, the place of supply for "intermediary services" will be determined as per the default provision u/s 13(2) of the IGST Act, i.e., location of the recipient of services
  - Appointment of Interim Appellate Authority
    - Appointment of Interim Appellate authority by amending Section 101A of CGST Act 2017 to address conflicting State AAR/AAAR Rulings.
- Customs
  - Validity of Customs Advance Rulings extended from the present three years to five years
  - Enhances duty deferral period for Tier 2 and Tier 3 Authorised Economic Operators, from 15 days to 30 days
  - Removal of the current value cap of INR10 lakh per consignment on courier exports
  - One-time special measure to facilitate sales by eligible manufacturing units in SEZs to the DTA at concessional duty rates
  - Customs Integrated System (CIS) to be rolled out in 2 years
  - Prior permission requirement removed from warehouse-to-warehouse movement of goods.

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