KPMG

India Union Budget 2026-27

Point of view

#KPMGBudgetLIVE | #UnionBudget2026

Financial Services

KPMG. Make the Difference.

Key announcements for the sector

Direct Tax

Rationalization provisions:

- No TDS on interest income payable to a co-operative bank
- Capital gains exemption on redemption of Sovereign Gold Bonds to be restricted to bonds subscribed at original issue and held till maturity; earlier exemption applied to all redemptions without "original issue" condition
- Share buyback proceeds proposed to be treated as capital gains instead of dividend income. For promoters, an additional tax will apply over and above the base tax rate, resulting in following effective rates (excluding surcharge and cess)
  - Domestic company promoters: 22% and
  - Other promoters: 30%

  The additional tax will not apply to transfers of short-term unlisted shares, which will continue to be taxed at the normal rates applicable
- Non–life insurance companies to be eligible to claim expenses which were disallowed on account of non-deduction of taxes, in the year the TDS is actually deducted and paid.

International Financial Services Center (IFSC)

- Tax holiday to be extended to 20 consecutive years out of 25 years for units in IFSC and 20 consecutive years for Offshore Banking Units
- Business income of units in IFSC after the expiry of tax holiday period to be taxed at the rate of 15 percent
- For any IFSC unit commencing operations on or after 1 April 2026, the tax holiday to be available if the unit is not formed by splitting up or reorganizing an existing business in India
- Definition of "specified fund" to be aligned with section 10(4D) of the Income-tax Act, 1961
- With respect to treasury centers in IFSC, loans or advances between group entities to be excluded from definition of "dividend," only if following conditions are satisfied:
  - One of the group entities is a finance unit or finance company in IFSC
  - The other group entity shall also be located in a foreign notified jurisdiction
  - The parent/principal entity is listed on an overseas stock exchange, with eligible jurisdictions to be notified by the Central Government.

Further, definitions of “parent entity” and “principal entity” are now explicitly included in the Act.

Securities Transaction Tax (“STT”)

- The rate of STT on sale of futures is proposed to be increased from 0.02 percent to 0.05 percent of traded value
- STT on options premium and STT on exercise of options is proposed to be increased to 0.15 percent from existing rate of 0.10 percent and 0.125 percent, respectively

Other Amendments:

- The terms commodity derivative” and “commodities transaction tax” defined to be aligned with Chapter VII of the Finance Act, 2013
- No deduction for interest expense to be allowed in respect of dividend income or income from units of mutual funds
- Penalty of INR 200 per day introduced for non- furnishing of information on crypto asset transactions. Further, penalty of INR 50,000 introduced for furnishing inaccurate particulars of such transactions and failure to correct such inaccuracy or failure to comply with due diligence requirement.

Indirect Tax

- The Place of Supply of services for “intermediary services” shall be the location of the recipient from the date of Presidential assent to the Finance Bill, 2026
  - Services provided by Indian stock-brokers, investment bankers, other brokers and agents (by whatever name called), to foreign customers shall now be classified as “exports” subject to satisfaction of other conditions of export of services laid down under section 2(6) of the IGST Act, 2017
  - Inversely, services imported by Indian companies from foreign brokers and agents, shall now be taxable under reverse charge mechanism. Input tax credit on the same shall be available subject to other conditions of input tax credit eligibility under section 16 and 17 of the CGST Act, 2017
  - Most countries follow the principle that the place of supply for intermediary services is determined by the location of the customer. The concept of “intermediary” was introduced in India in 2012, after 14 years the Government has finally aligned the concept with international standards.
- In case of post-sale discounts by various players in the financing services sector, where credit notes are issued by the supplier, the input tax credit attributable to such discount must be reversed by the recipient of such supply. The effective date of this provision shall be notified separately
  - The requirement of linking such discount with an agreement has been done away with
  - However, the timeline to declare such credit notes has not changed.

Implications for the sector

- Setting-up of high-level committee on Banking for Viksit Bharat - Banking is key to ensure success of the budget focus areas by ensuring credit in the right direction. Committee should bring clarity on following - foreign investment in banking, bank of the future, Indian banks going global, Private equity in banking, etc.   Also, one of the other key areas for focus should be to strengthen or incentivise Bank's ability to continue raising high level of CASA and deposits which currently is under significant pressure from alternate investment products
- Again, missed opportunity to incentivise attracting money in Bank fixed deposits by ensuring tax equilibrium between interest income on Fixed Deposits and capital gains from certain equity funds / debt funds, especially arbitrage funds
- Restructuring Power Finance Corporation and Rural Electrification Corporation offers India a strategic opportunity to build a more agile and future-ready infrastructure financing engine. By strengthening capital efficiency, sharpening focus on renewables and enhancing system-wide risk management, such a move would reinforce financial-sector stability while accelerating the nation’s energy transition and long-term growth agenda
- The creation of Champion Small and Medium Enterprises (SMEs), backed by deeper equity pools and a more liquid, transparent receivables ecosystem, positions the FS sector at the heart of India’s next productivity leap—expanding credit pipelines, unlocking new asset classes, and accelerating the formalisation of enterprise growth
- Recognising TReDS receivables as asset-backed securities would fundamentally elevate Micro, Small and Medium Enterprises (MSME) financing by transforming verified invoices into a trusted investment asset. This shift can attract deeper institutional capital, lower the cost of working capital for MSMEs, and create a more liquid, transparent, and resilient credit ecosystem—benefiting both the financial sector and the backbone of India’s supply chain
- Comprehensive review to modernise the Foreign Exchange Management (Non-debt Instruments) Rules will cut friction, expand the investment universe, and give FS institutions clearer, faster pathways to channel global capital—strengthening India’s competitiveness as a destination for sophisticated, long-term foreign flows
- Proposal to introduce Market making framework will help build liquidity and add market participants in the Corporate Bond segment. Introducing TRS on Corporate Bonds will enable Banks to optimise their Capital and Risk Weighted Assets and improve hedging of their credit portfolios
- Dedicated Real Estate Investment Trusts (REITs) for monetising Central Public Sector Enterprise (CPSE) real estate will unlock large-scale, yield-generating assets for the FS ecosystem—expanding investment products, deepening real-asset financing, and attracting stable institutional capital into the infrastructure-realty corridor
- A dedicated Infrastructure Risk Guarantee Fund will reduce risk in early-stage projects, enabling lenders to step in with greater confidence—expanding long-tenor credit, improving bankability, and accelerating capital flows into India’s infrastructure pipeline
- Higher investment limits for Individual Persons Resident Outside India (PROIs) will widen the global investor base for Indian equities, boosting market depth, enhancing liquidity, and creating fresh opportunities for FS intermediaries to channel overseas wealth into India’s growth story.

From the Tax vantage

- Extending the tax holiday for Offshore Banking Units and to other IFSC units from 10 years to 20 years and the 15% tax rate thereafter positions GIFT City as a global financial hub for long-term financial sector investment
  - Policy support for treasury centers strengthens India’s ambition to lead onshore capital decisions, liquidity management and risk management
  - Higher STT on derivatives signals a clear intent to deepen capital markets without encouraging excessive speculation
  - Entities dealing in crypto assets will need to strengthen internal controls, compliance processes, and reporting mechanisms to avoid penalties.

- To claim the export benefit of zero-rated supply under GST, intermediaries in India must ensure strict compliance with all export conditions, for example, the receipt of payment for such services must be in convertible foreign exchange or in Indian Rupees, wherever permitted by the RBI
  - Reducing the GST rate from 18% to 0% for Indian intermediaries serving foreign clients is likely to boost exports, expand international client base, improve cash flows, and enhance the global competitiveness of India's financial services sector
  - Service providers exporting services to foreign clients have faced prolonged litigation, with authorities often classifying their services as "intermediary services", thereby rejecting their claim for refund of input tax credit or tax paid on export and denying zero-rated benefit on their services. Although the upcoming amendment will apply prospectively, it is expected to significantly reduce such disputes going forward.
- The claim of deduction in tax liability on account of credit notes issued towards post-sale discount would become seamless, especially in view of imminent introduction of Invoice Management System (IMS) whereby the reversal of input tax credit by the recipient of supply shall be actioned on the GST portal and become visible to the supplier

- The claim of deduction in tax liability on account of credit notes issued towards post-sale discount would become seamless, especially in view of imminent introduction of Invoice Management System (IMS) whereby the reversal of input tax credit by the recipient of supply shall be actioned on the GST portal and become visible to the supplier.

KPMG in India contacts:

Hemant Jhajharia
Head of Consulting
E: hemantj@kpmg.com

Sunil Badala
Partner and Head of Tax,
Head of BFSI Tax
E: sunilbadala@kpmg.com

Sanjay Doshi
Partner and Head of Transaction Services and Advisory,
Head of Financial Services
E: sanjaydoshi@kpmg.com

kpmg.com/in/socialmedia

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

Access
Budget microsite