KPMG

India Union Budget 2026-27

Point of view

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Technology

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Key announcements for the sector

Direct Tax proposals

- Promotion of data centre business in India
  - Tax holiday until 31 Mar 2047 for foreign companies that earn income by providing cloud services to customers globally by using data centre services from specified Indian data centres. Cloud services to Indian customers to be provided only through an Indian reseller entity.
  - Transfer Pricing safe harbor of 15% on cost in case the company providing data centre services from India is a associated enterprise
- Rationalization of Safe Harbor provisions for IT Sector
  - Wide range of services clubbed under the category of IT Services with a safe harbor margin of 15.5%
  - Eligibility threshold to apply Safe Harbor increased from current ₹300 crore to ₹2,000 crore
  - Approval under rule-based automatic process without need of any examination of application
  - Once approved, safe harbor continues for a period of 5 years at the choice of the taxpayer
  - Rules and procedure to be notified
- Amendments to the Advance Pricing Agreement [APA]
  - Fast-tracked Unilateral APA process for IT services targeted for completion within two years
  - The Associated Enterprises of the entity entering into APA also allowed to file modified returns
- Changes in buy back tax provisions
  - Proposal to tax the consideration received on buy-back of securities as Capital Gain instead of Dividends
  - In case of Corporate Promoters, the effective tax liability on gains arising from buy back of securities shall be 22% and it shall be 30% in case of non-corporate promoters
- Changes in Minimum Alternate Tax [MAT] Provisions
  - No MAT to foreign companies which opt into presumptive taxation
  - MAT rate reduced to 14% of book profits for domestic companies 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 past MAT credit to be allowed only in new regime to the extent of 1/4th of the tax liability in the new regime

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- Rationalization of Tax deduction at Source [TDS] and Tax Collection at Source [TCS] provisions
  - ‘Supply of manpower’ to be brought within the ambit of ‘work’ thereby attracting TDS at 1%/ 2%, as applicable
  - Reduction of TCS rate to 2% from current 5% on remittances made for education or medical treatment exceeding INR 10 Lakhs under the Liberalised Remittance Scheme
  - Reduction of TCS rate to 2% from current 5%/ 20% on sale of overseas tour programme package irrespective of the amount involved
  - Proposal to enable electronic verification and issuance of certificate for deduction of tax at lower rate or Nil rate.
- Rationalization of provisions relating to filing of income-tax returns
  - Time limit to file Revised return of income extended to 31 Mar as against the current time limit of 31 Dec; filing of revised return between 1 Jan to 31 Mar to attract a nominal fee
  - Filing of Updated return of income proposed to be allowed even in case of Loss return
  - Filing of Updated return proposed to be allowed in cases where reassessment proceedings have been initiated upon payment of additional 10% tax
- Clarificatory amendments on certain procedural matters concerning assessment and reassessment proceedings
  - Re-assessment notices to be issued by Jurisdictional AO and thereafter, the re-assessment proceedings to be conducted by the National Faceless Assessment Centre and its units in a faceless manner
  - Assessments not to be invalidated merely on the grounds of any mistake, defect or omission on account of computer-generated DIN, if such assessment is referenced by computer generated DIN in any manner
  - Statutory timeline to issue the final assessment order excludes time provided for proceedings before the Dispute Resolution Panel, where applicable.
- Other amendments
  - Tax rate on certain special category income such as unexplained credits, unexplained investment, unexplained asset, etc proposed to be reduced from 60% to 30%. Further, penalty on such category of income now proposed to be at 200% of the tax amount as against 10% of the income amount hitherto
  - Proposal to introduce Fee as against Penalty for cases of non-filing/ belated filing of Tax Audit Reports, Transfer Pricing Reports and Statement of Financial Transaction
  - Period of 100% tax holiday in case of units of International Financial Services Centre proposed to be increased to 20 consecutive years out of 25 years as against the current 10 consecutive years out of 15 years; reduced tax rate of 15% after tax holiday period.
  - One time compliance window for disclosure of foreign assets and income upon satisfaction of specified conditions
  - Proposal to impose penalty for under-reporting/ mis-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 shall be levied only after the disposal of the first appeal proceedings [CIT(A)/ ITAT]
  - Immunity from penalty to be extended for cases involving under-reporting as a consequence of mis-reporting of income as well with payment of additional tax (100%/ 120%)
  - Deduction for employee contributions towards PF, ESIC, etc. allowed as deduction if paid within the due date of filing of return of income (earlier deduction was allowable only if contribution was paid within due date as per applicable statute)
  - Pre-deposit for tax appeals before the CIT) reduced from 20% to 10% on the core tax demand (to be notified).

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Indirect Tax proposals

The key proposals under the Goods and Services Tax (GST) regime have been announced in line with the recommendations of the 56th GST Council. The key sector-relevant announcements are summarized below

- The place-of-supply rule specific to intermediary services has been removed. As a result, the general principle—treating the recipient's location as the place of supply will apply going forward.
- The law is being amended to remove the condition that post-sale discounts must be backed by a prior agreement. Such discounts can now be adjusted through a credit note, provided the recipient reverses the corresponding input tax credit - *effective 01 April 2026.*

The key proposals under the Customs regime have been announced in line with the trade facilitation measures. The key sector-relevant announcements are summarized below

- The deferral period for Tier 2 and Tier 3 Authorized Economic Operators (AEOs) is enhanced from 15 days to 30 days - *effective 01 March 2026*

The exemption on Basic Customs Duty for capital goods used in manufacturing Lithium-Ion cells for electric vehicle batteries is being broadened to include batteries for stationary energy storage applications, namely Battery Energy Storage Systems (BESS)- *effective 02 February 2026*

Implications for the sector

Direct tax

- Proposals seek to introduce structural reforms, simplification, and certainty rather than headline rate changes
- Big tax holidays to the foreign players to encourage providing cloud services to customers globally by using data centre services from India
- The proposals relating to Safe harbour provisions specifically for IT & ITeS (software development, ITeS, KPO, contract R&D) is a welcome move and will significantly provide certainty, reduce compliance const and litigation, potentially inviting increased investment and footprint of global MNCs in India and also giving a fillip to the growing GCCs in India
- Rationalization of MAT provisions will get more and more corporate taxpayers to opt into the new regime.

Indirect tax

- Cross-border clarity (exports and imports):
  The reform marks a turning point for India's GST regime, granting long-denied export benefits to Indian service providers by aligning place of supply with the recipient's location. This offers clearer export positioning for services provided to overseas platforms, while services procured from foreign intermediaries may be treated as imports, requiring a review of reverse-charge obligations once notified

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