

## OVERVIEW OF THE UNION BUDGET 2026 – 2027

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### I. INTRODUCTION

On February 1, 2026, the Hon’ble Finance Minister, Nirmala Sitharaman, presented the Union Budget 2026-2027 (“**Budget 2026**”). This is the first Budget presented in Kartavya Bhawan and is anchored around three core “Kartavyas” (duties) to steer India’s growth trajectory towards Viksit Bharat.

The first Kartavya is to accelerate and sustain economic growth by enhancing productivity and competitiveness and building resilience to volatile global dynamics. The second Kartavya is to fulfil aspirations of the people and build their capacity, making them strong partners in India’s path to prosperity. The third Kartavya, aligned with the vision of Sabka Sath, Sabka Vikas, is to ensure that every family, community, region and sector has access to resources, amenities and opportunities for meaningful participation.

Against a backdrop of global trade disruptions and technological transformation, Budget 2026 affirms the Government’s commitment to fiscal prudence and sustainable development. Following the Prime Minister’s Independence Day 2025 announcement, over 350 reforms have been rolled out, including GST simplification, notification of Labour Codes, and rationalisation of mandatory quality control orders.

### II. IMPLICATIONS ON VARIOUS SECTORS

#### 1. Financial Sector Reforms and Foreign Investments

- **Review of FEMA (Non-Debt Instruments) Rules** – A comprehensive review of the Foreign Exchange Management (Non-debt Instruments) Rules is proposed to create a more contemporary, user-friendly framework for foreign investments, consistent with India’s evolving economic priorities. This is expected to simplify compliance, enhance regulatory clarity and align India’s foreign exchange regime with global investment practices.
- **Portfolio Investment by Persons Resident Outside India (PROIs)** – Individual PROIs are now permitted to invest in equity instruments of listed Indian companies through the portfolio investment scheme. The investment limit for an individual PROI is raised from 5% to 10%, and the overall investment limit for all individual PROIs combined is raised from 10% to 24%. This liberalisation broadens the foreign investor base in Indian capital markets.
- **High Level Committee on Banking** – A “High Level Committee on Banking for Viksit Bharat” will be constituted to comprehensively review the sector and align it with India’s next phase of growth, while safeguarding financial stability, inclusion and consumer protection.

- **Municipal Bonds** – An incentive of INR 1,00,00,00,000 is announced for a single bond issuance exceeding INR 10,00,00,00,000, to encourage issuance of municipal bonds by large cities. The existing Atal Mission for Rejuvenation and Urban Transformation scheme supporting issuances up to INR 2,00,00,00,000 will continue for smaller and medium towns.
- **Corporate Bond Market** – A market making framework with suitable access to funds and derivatives on corporate bond indices is proposed, along with total return swaps on corporate bonds.

## 2. Corporate Laws

- **Tax and Corporate Accounting Framework** – A joint committee comprising representatives of the Ministry of Corporate Affairs and Central Board of Direct Taxes will be constituted to incorporate requirements of Income Computation and Disclosure Standards (ICDS) into Indian Accounting Standards (IndAS). Separate accounting requirements based on ICDS will be done away with from tax year 2027-28.
- **Share Buybacks** – Buyback of shares will be taxed as capital gains in the hands of all shareholders. To prevent misuse for tax arbitrage, promoters will be subject to additional buyback tax, making effective tax 22% for corporate promoters and 30% for non-corporate promoters. This will impact corporate capital restructuring strategies.
- **Minimum Alternate Tax (MAT) Regime** – MAT is proposed to be made a final tax, with no further credit accumulation from April 1, 2026. The MAT rate is reduced from 15% to 14%.

## 3. MSME Sector and Employment

- **Creating “Champion MSMEs”: A Three-Pronged Approach-**

Recognising MSMEs as a vital engine of growth, the Budget 2026 adopts a three-pronged strategy focused on equity capital, liquidity support and professional capacity building.

- **Equity Support** – A dedicated INR 100,000,000,000 SME growth fund is proposed to provide equity to MSMEs demonstrating scale potential, innovation capability or export readiness. Additionally, the Self-Reliant India Fund (established in 2021) will be topped up with INR 20,00,00,00,000 to continue support to micro enterprises.
- **Liquidity Support** – The Trade Receivables Discounting System (TReDS) is strengthened through four measures: (i) mandatory TReDS settlement for all CPSE purchases from MSMEs; (ii) credit guarantee support through CGTMSE for invoice discounting on TReDS; (iii) integration of GeM with TReDS for data-driven financing; and (iv) introduction of TReDS receivables as asset-backed securities to develop a secondary market.
- **Professional Support** – Professional institutions (ICAI, ICSI, ICMAI) will develop a cadre of trained “Corporate Mitras”, accredited para-professionals in Tier-II and Tier-III towns, to assist MSMEs with compliance, accounting and regulatory filings at affordable costs.

- **High-Powered Standing Committee** – A High-Powered “Education to Employment and Enterprise” Standing Committee (“**Committee**”) will be constituted to recommend measures focusing on the services sector as a core driver of Viksit Bharat, with a target of achieving 10% global share by 2047. The Committee will also assess the impact of emerging technologies, including AI, on jobs and skill requirements.
- **ESIC Contribution Timeline** – Deductions for employee contributions to welfare funds under the Employees’ State Insurance Act will be admissible if credited by the due date of filing return of income under Section 263(1) of the Income Tax Act, 2025, rather than the fund’s specific due date.

#### 4. **Manufacturing and Industrial Development**

- **Biopharma SHAKTI** – The Biopharma SHAKTI (Strategy for Healthcare Advancement through Knowledge, Technology and Innovation) is proposed with an outlay of INR 100,000,000,000 over 5 years to develop India as a global biopharma manufacturing hub. This includes 3 new National Institutes of Pharmaceutical Education and Research (NIPER), upgrading 7 existing ones, and creating a network of over 1,000 accredited clinical trial sites.
- **India Semiconductor Mission 2.0 (“ISM”)** – ISM will be launched to produce equipment and materials, design full-stack Indian IP, fortify supply chains, and establish industry-led research and training centres.
- **Electronics Components Manufacturing Scheme** – The outlay for this scheme, launched in April 2025 with INR 22,919 crore, is increased to INR 40,000 crore to capitalise on strong investment commitments.
- **Rare Earth Corridors** – Dedicated Rare Earth Corridors will be established in mineral-rich states of Odisha, Kerala, Andhra Pradesh and Tamil Nadu to promote mining, processing, research and manufacturing.
- **Integrated Programme for Textiles** – A five-part programme comprising: (a) National Fibre Scheme for self-reliance in natural, man-made and new-age fibres; (b) Textile Expansion and Employment Scheme for cluster modernisation; (c) National Handloom and Handicraft programme; (d) Tex-Eco Initiative for sustainable textiles; and (e) Samarth 2.0 for textile skilling. Additionally, Mega Textile Parks will be set up in challenge mode, and the Mahatma Gandhi Gram Swaraj initiative will strengthen khadi, handloom and handicrafts.
- **Sports Goods** – A dedicated initiative for sports goods manufacturing, research and innovation in equipment design and material sciences.

#### 5. **Maritime and Infrastructure**

- **Capital Expenditure** – Public capex is increased from INR11.2 lakh crore budget estimate (“**BE**”) 2025-26 to INR12.2 lakh crore in FY 2026-27, continuing the infrastructure-led growth momentum.
- **Infrastructure Risk Guarantee Fund** – A fund will be established to provide prudently calibrated partial credit guarantees to lenders, strengthening confidence of private developers during infrastructure development and construction phase.

- **Asset Monetisation through REITs** – Recycling of significant real estate assets of CPSEs will be accelerated through dedicated REITs.
- **National Waterways** – 25 National Waterways will be operationalised over 5 years, starting with NW-5 in Odisha connecting mineral-rich areas of Talcher and Angul to the ports of Paradeep and Dhamra.
- **High-Speed Rail Corridors** – Seven corridors will be developed as “growth connectors”: (i) Mumbai-Pune; (ii) Pune-Hyderabad; (iii) Hyderabad-Bengaluru; (iv) Hyderabad-Chennai; (v) Chennai-Bengaluru; (vi) Delhi-Varanasi; and (vii) Varanasi-Siliguri.
- **City Economic Regions** – An allocation of INR 5,000 crore per City Economic Region (CER) over 5 years is proposed through a challenge mode with reform-cum-results based financing.
- **Coastal Cargo Promotion Scheme** – A scheme to incentivise modal shift from rail and road, targeting increase in share of inland waterways and coastal shipping from 6% to 12% by 2047.

## 6. Energy

- **Carbon Capture Utilization and Storage (CCUS)** – An outlay of INR 20,000 crore over 5 years is proposed for CCUS technologies, aligned with the December 2025 roadmap. Focus will be on achieving higher technology readiness levels across five industrial sectors: power, steel, cement, refineries and chemicals.
- **Customs Duty Exemptions** – Basic customs duty exemption on capital goods for manufacturing lithium-ion cells is extended to those used for battery energy storage systems. Exemption is also provided on sodium antimonate for solar glass manufacturing and capital goods for processing critical minerals.
- **Nuclear Power** – The existing basic customs duty exemption on imports for Nuclear Power Projects is extended till 2035 and expanded to all nuclear plants irrespective of capacity.

## 7. Technology and Artificial Intelligence (AI)

- **Data Centre Services** – Foreign companies providing cloud services to global customers by procuring data centre services from India will receive tax holiday till 2047. Services to Indian customers must be provided through an Indian reseller entity. A safe harbour margin of 15% on cost is provided where data centre services are rendered by a related Indian entity.
- **Bharat-VISTAAR** – Budget 2026 proposes to launch Bharat-VISTAAR (Virtually Integrated System to Access Agricultural Resources), a multilingual AI tool that will integrate the AgriStack portals and ICAR package on agricultural practices with AI systems. This is intended to enhance farm productivity, enable better decision-making for farmers and reduce risk through customised advisory support.
- **National Destination Digital Knowledge Grid** – Budget 2026 proposes to establish a National Destination Digital Knowledge Grid to digitally document all places of cultural, spiritual and heritage significance. This initiative is expected to create a new ecosystem

of employment opportunities for local researchers, historians, content creators and technology partners.

## 8. Direct Tax

- **TCS Rationalisation** – Budget 2026 proposes to rationalise TCS rates across multiple categories. The rate on overseas tour programme packages is reduced from 5%/20% to a flat 2% without any stipulation of amount. For remittances under LRS for education and medical purposes, the rate is reduced from 5% to 2%. Conversely, the rate on alcoholic liquor, scrap and minerals is increased from 1% to 2%, while on tendu leaves it is reduced from 5% to 2%.
- **Motor Accident Claims** – It is proposed that any interest awarded by the Motor Accident Claims Tribunal to a natural person shall be exempt from Income Tax. TDS on such interest is also proposed to be waived.
- **Supply of Manpower** – Budget 2026 proposes to bring supply of manpower services within the ambit of "payment to contractors" for TDS purposes, thereby attracting a rate of 1% or 2% only. This removes ambiguity and will benefit labour-intensive businesses.
- **Return Filing** – It is proposed to extend the time available for filing revised returns from December 31 to March 31, with payment of a nominal fee. Additionally, the filing timeline is proposed to be staggered: individuals filing ITR 1 and ITR 2 will continue to file by July 31, while non-audit business cases and trusts will have until August 31.
- **Penalty & Prosecution Rationalisation** – Budget 2026 proposes to reduce multiplicity of proceedings by integrating assessment and penalty proceedings into a single common order. The quantum of prepayment is reduced from 20% to 10%, calculated only on core tax demand. Taxpayers will be permitted to update returns even after reassessment proceedings have been initiated, at an additional 10% tax rate. Immunity from penalty and prosecution is extended to misreporting cases on payment of 100% of tax as additional income tax. The prosecution framework is rationalised, with maximum imprisonment reduced to 2 years.
- **Cooperatives** – Budget 2026 proposes to extend the deduction already available to primary cooperative societies engaged in supplying milk, oilseeds, fruits or vegetables, to those supplying cattle feed and cotton seed. Inter-cooperative society dividend income is proposed to be allowed as deduction under the new tax regime to the extent further distributed to members. A 3 year exemption is proposed for dividend income received by notified national cooperative federations on investments made in companies up to January 31, 2026, provided such dividends are further distributed to member cooperatives.
- **IT Sector Safe Harbour** – Budget 2026 proposes to club software development services, IT-enabled services, knowledge process outsourcing services and contract R&D services under a single category of "Information Technology Services" with a common safe harbour margin of 15.5%. The threshold for availing safe harbour is enhanced from INR 300 crore to INR 2,000 crore. The safe harbour will be approved through an automated, rule-driven process and may be continued for 5 years at the taxpayer's option. Unilateral APA process for IT services is proposed to be fast-tracked with the endeavour to conclude within 2 years, extendable by 6 months on taxpayer's request.

- **STT Increase** – Budget 2026 proposes to raise STT on Futures from 0.02% to 0.05%. STT on options premium is proposed to be raised from 0.10% to 0.15%, and on exercise of options from 0.125% to 0.15%.

## 9. Indirect Tax

- **Customs Duty Exemptions** – Basic customs duty exempted on 17 drugs/medicines; 7 additional rare diseases for personal imports; components for civilian, training and defence aircraft; parts for microwave oven manufacture; sodium antimonate for solar glass and capital goods for critical mineral processing.
- **SEZ to DTA Sales** – A special one-time measure to facilitate sales by eligible SEZ manufacturing units to Domestic Tariff Area at concessional duty rates, limited to a prescribed proportion of exports.
- **Personal Imports** – Tariff rate on all dutiable goods imported for personal use reduced from 20% to 10%.
- **Advance Ruling Validity** – Extended from 3 years to 5 years.
- **Customs Process Reforms** – Filing of Bill of Entry by trusted importers will automatically notify Customs for clearance. Cargo clearance from various agencies to be processed through a single interconnected digital window by year-end. Customs Integrated System (CIS) to be rolled out in 2 years. Non-intrusive scanning with AI technology to be expanded across all major ports.
- **Fisheries Exports** – Fish catch by Indian fishing vessels in Exclusive Economic Zone or High Seas made duty-free. Landing at foreign port treated as export.
- **Biogas Blended CNG** – Value of biogas excluded while calculating Central Excise duty on biogas blended CNG.

## III. CONCLUSION

The Union Budget 2026-2027 represents a strategic fiscal blueprint that balances growth ambitions with social equity, structured around the three Kartavyas articulated by the Government.

The emphasis on manufacturing in strategic sectors, semiconductors, biopharma, electronics and rare earths, signals a decisive move towards reducing import dependence and building domestic capabilities in critical areas. The three-pronged approach to MSMEs, combining equity support, liquidity enhancement and professional capacity building, addresses structural constraints beyond traditional credit-focused interventions.

Infrastructure development remains central, with significant allocations for freight corridors, waterways and high-speed rail, alongside innovative financing mechanisms like the Infrastructure Risk Guarantee Fund and dedicated REITs.

The direct tax proposals, particularly the new Income Tax Act 2025 effective from April 2026, safe harbour expansions for IT services, and rationalisation of penalty and prosecution frameworks, aim to reduce compliance burden and litigation while encouraging voluntary compliance.

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