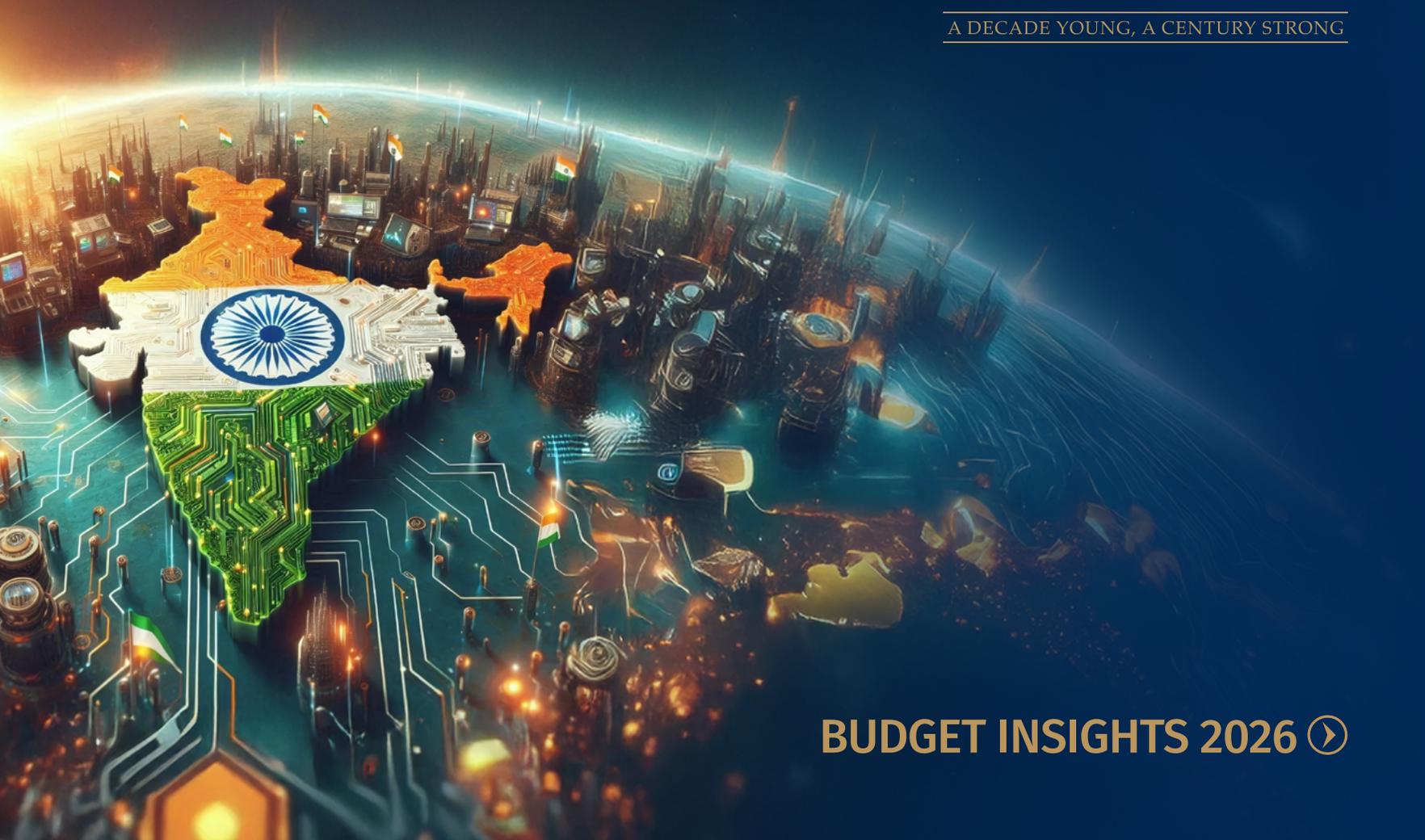


Shardul Amarchand Mangaldas

A DECADE YOUNG, A CENTURY STRONG



**BUDGET INSIGHTS 2026** 

Finance Minister Nirmala Sitharaman presented her 9th consecutive Union Budget 2026-27 on February 1, 2026, outlining an ambitious economic roadmap anchored in structural reforms, fiscal prudence, and monetary stability emphasizing sustained capital investment, and strategic manufacturing growth.

The Budget arrives at a pivotal moment for India's economy, which has maintained an estimated real Gross Domestic Product (GDP) growth of 7.4% as per the Economic Survey for financial year (FY) 2025-26 released on January 29, 2025. This growth has been achieved despite a volatile global environment characterised by heightened trade tensions and shifting geopolitical dynamics. The macroeconomic factors buttressing the Union Budget 2026 are notably strong, which includes falling Consumer Price Index inflation to a historic low of 1.7% during April to December 2025, increasing FDI inflows to USD 64.7 billion between April to November 2025 and consolidation of fiscal deficit at 4.4% of GDP for 2025-26.

Introduction of the India Semiconductor Mission 2.0, increase in the investment outlay for electronic manufacturing components, and public investment commitments for Healthcare, Minerals, Chemicals, Capital Goods and Textiles, specifying them as 7 strategic sectors underscore the Government's efforts to make India self-sufficient. Simultaneously, the Indian Government has renewed its commitment to the services sector, which has historically formed the foundation of the Indian economy. The services sector had, in recent years, been overshadowed by the impetus given to manufacturing. The current Budget reinstates the importance of this sector, with an ambitious objective of growing service exports to 10% of the global share by 2047.

Further, the Government has introduced a range of mechanisms to strengthen its objective of ease of doing business and shed its image as a tax-aggressive jurisdiction and fostering a more predictable business environment. The Union Budget 2026 represents a balanced and forward-looking approach, The measures introduced signal India's intent to emerge as a preferred destination for global business, underpinned by a fair, transparent, and efficient tax regime.

We have summarised the key tax proposals in this document. Please feel free to reach out to discuss this further. Thanks

Best regards

Shardul Amarchand Mangaldas & Co.

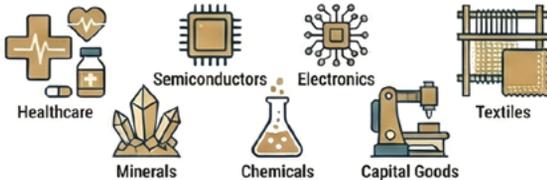
### Union Budget 2026-27: The Three Core Pillars

Structured around three core 'kartavyas' (duties) to accelerate economic growth, strengthen the services sector, and ensure inclusive development for all citizens.

#### First Kartavya: Accelerating Economic Growth

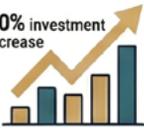


##### Boosting 7 Manufacturing Strategic Sectors



##### ₹400 Billion for Electronics Manufacturing

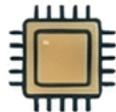
70% investment increase



to boost domestic production and counter imports

- Rejuvenating legacy industries through infrastructure and technology upgradation,
- Creating "Champion MSMEs",

##### India Semiconductor Mission 2.0



Building a Self-Reliant Chip Ecosystem

- Push to infrastructure,
- Long-term energy security and stability, and
- Developing City Economic Regions.

#### Second Kartavya: Strengthening the Services Sector



##### Goal: 10% Share of Global Services by 2047

A renewed emphasis on the services sector to create widespread employment opportunities.

##### Key Focus Areas Identified



#### Third Kartavya: Ensuring Inclusive Growth



##### Vision of 'Sabka Sath, Sabka Vikas'

Aligning growth with the principle of inclusive development for all.



Increasing farmer incomes



Improve access to mental health and trauma care



Accelerated growth and employment development in certain identified States



Empowering special needs' individuals

## Key Amendments Proposed on Direct Taxes

This year's Budget has reaffirmed the Government's intent to make the New Income Tax Act, 2025 up and running with effect from April 1, 2026. In line with the same, amendments have been proposed both under the existing Income Tax Act, 1961, as well as under the New Income Tax Act, 2025. The direct tax amendments range from substantive and procedural amendments, including the clarificatory amendments, which shows the intent of Government to provide clarity and certainty to taxpayers. Major amendments have been announced on litigation management with an aim of reducing the pending as well as future disputes. The amendments relating to rationalization of assessment, penal and prosecution provisions will enhance the taxpayer's confidence in tax administration.

### Exemption for Foreign Companies Procuring Data Centre Services

- In the past, India's position has been that a foreign company can trigger a permanent establishment (PE) in India by using any server or equipment (irrespective of who owns or operates that equipment) if it includes downloading automated software, which uses the equipment to collect data from the equipment, processes it in any manner and shares it with the foreign company. Resultantly, a network of servers in data centres in India used by the foreign company for providing services to its users could constitute a PE of the foreign company in India. Furthermore, any business profits attributable to such PE are taxable in India at 38.22%.
- From a *prima facie* reading, it appears that the Budget exempts foreign companies from taxation in respect of any such income accruing or arising in India from procuring data centre services from data centres set up under notified schemes. Such tax exemption will apply for a period up to the tax year ending on 31 March 2047.
- For such tax exemption to apply, the foreign company cannot own or operate any of the physical infrastructure or any resources of such data centre. This means that the data centre is likely to be housed in an Indian company, which would provide data centre services to the foreign company against a service fee.
- Moreover, the exemption requires the foreign company to sell its services to Indian users through another Indian company which will be acting as a reseller. Resultantly, revenue generated from sales to Indian users will be booked and taxed in the hands of the Indian company at the applicable corporate tax rates. However, any payments made by such Indian company to the foreign company for purchase of services for onwards resale may be tax exempt in the hands of the foreign company.

- The proposed amendment looks to provide tax certainty to foreign players that are setting up data centres in India under Government approved schemes.

### Exemption for Foreign Companies Supplying Capital Equipment to Contract Manufacturers

- Under a toll manufacturing arrangement, a foreign company would often provide capital goods, equipment, and tooling to the contract manufacturer in India. The ownership of such capital goods, equipment and tooling would remain with the foreign company. As a result, such capital goods, equipment and tooling could create a PE for the foreign company in India.
- To promote manufacturing of electronic goods in India, the Budget proposes to address such PE risk. It provides that income accruing or arising to a foreign company from the provision of capital goods, equipment, and tooling to the contract manufacturer in India, for use in electronic goods manufacturing in India, will be tax exempt in India up to the tax year 2030-2031.
- To fall under such exemption, the Indian manufacturer should be in custom bonded area and should produce electronic goods on behalf of the foreign company. Moreover, such capital goods, equipment and tooling should be under the control and direction of the Indian manufacturer.

### Rationalisation of Minimum Alternate Tax (MAT) Provisions

- Presently, MAT is charged on the book profit of a company at the rate of 15% (except in case of certain International Financial Services Centre (IFSC) units, where MAT is payable at 9%). Notably, MAT is payable when tax liability of the company determined under regular tax provisions is lower than 15% of its book profits. The excess amount paid as MAT is allowed as a tax credit, which can be carried forward up to 15 years and set off in future years when the company's regular tax liability exceeds MAT. MAT is typically applicable to domestic companies under the old tax regime (i.e., corporate tax rate of 22% without any tax holidays/incentives) and foreign companies having a PE in India.

- In a major overhaul of the MAT regime, the Budget proposes the following:
  - Reduction in MAT rate for non IFSC units from 15% to 14% of book profit.
  - From tax year 2026-27, MAT will be a final tax liability. There will be no option to claim MAT credit in respect of the MAT paid from such tax year onwards.
  - For companies under old regime (i.e. companies subject to corporate tax at 25%-30% with tax holidays/incentives), all accumulated MAT credit from prior tax years will lapse. However, in case such companies opt for the new regime, the accumulated MAT credit can be used to set off income tax liability under regular provisions to the extent of 25% of such tax liability.
  - For foreign companies that have accumulated MAT credit relevant to tax years preceding 2026-27, set off is proposed to be allowed in subsequent tax years to the extent that tax under regular provisions exceeds MAT liability in a tax year.
  - Foreign companies that are subject to specified presumptive taxation regimes namely, the business of operation of cruise ships, and business of providing services or technology for setting up an electronics manufacturing facility in India to a resident company, have been exempt from MAT.

### **Exemption for Non-Residents Rendering Services under Notified Schemes**

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- The Budget proposes to exempt foreign sourced income of expatriate employees (being non-residents for at least 5 consecutive tax years preceding the tax year when they first visit India) visiting India to provide services in connection with a scheme notified by the Government. Such tax exemption is available for 5 consecutive tax years commencing from the first tax year during which they visit India in connection with such scheme.

### Extended Deduction Period for IFSC Units

- Currently, the business profits earned by an IFSC unit are tax exempt for a period of any 10 consecutive tax years out of 15 tax years from registration. The Budget proposes to increase the duration of such tax holiday. Henceforth, exemption will be available to the business profits of an IFSC unit for any 20 consecutive tax years out of 25 tax years from registration. In case of Offshore Banking Units, such tax holiday has been extended from 10 tax years to 20 tax years from registration.
- Business income earned after the tax holiday expires will be taxed at a concessional rate of 15%.

### Rationalization of Treasury Centre Provisions in IFSC

- Currently, loans and advances between IFSC units set up as global regional corporate treasury centres and their group companies are exempt from deemed dividend provisions. For such exemption to apply the group's parent or principal entity should be listed on a stock exchange in a jurisdiction outside India (not being a specified jurisdiction). This meant that loans and advances between IFSC units and their group companies located in or outside India could be seen as being exempt from deemed dividend provisions.
- The Budget proposes to tighten this exemption by requiring that the transacting party contracting with the IFSC unit should also be located in a notified jurisdiction outside India.
- In addition, 'parent or principal entity' is proposed to be defined as an entity of which other group entities are subsidiaries and which either (i) holds, alone or with subsidiaries, more than half of the total voting power; or (ii) controls the composition of the board of directors. Moreover, the definition of a group entity has been aligned with the International Financial Services Authority (Payment Services) Regulations, 2024.

### Rationalization of collection of tax at source (TCS) rates

- In a relief to individuals, the TCS rates have been reduced for certain categories of payments as follows:

Nature of Receipt	Current Rate	Proposed Rate
Remittance under the Liberalized Remittance Scheme of an amount or aggregate of the amounts exceeding INR 1 million (USD 11,000)	5% for purposes of education or medical treatment	2% for purposes of education or medical treatment
Sale of overseas tour programme package including expenses for travel or hotel stay or boarding or lodging or any such similar or related expenditure	<ul style="list-style-type: none"><li>5% of amount or aggregate of amounts up to INR 1 million (USD 11,000)</li><li>20% of amount or aggregate of amounts exceeding INR 1 million (USD 11,000)</li></ul>	2%

### Taxation of buy-back of shares

- Indian income tax laws presently treat consideration received on buy-back of shares as dividend income, which is taxed as ordinary income. To rationalise the taxation of buy-back of shares, the Budget proposes to tax such consideration as capital gains.
- However, in case the person receiving buy-back consideration is classified as a promoter, an additional tax will be payable resulting in an effective tax rate of 22% on gains in the case of domestic promoter companies, and 30% in case of other promoters.
- In case of listed companies, the definition of promoter aligns with Securities and Exchange Board of India (Buy-Back of Securities) Regulations, 2018. In case of unlisted companies, promoter means a promoter as defined under the Companies Act, 2013, and also includes any person who owns directly or indirectly more than 10% shares in the company undertaking the buy-back.

### Increase in Securities Transaction Tax (STT) rates

- The Budget proposes to increase STT rates as follows:

Particular	Current Rate	Proposed Rate
Sale of an option in securities	0.1% of the option premium	0.15% of the option premium
Sale of an option where exercised	0.125% of the intrinsic price	0.15% of the intrinsic price
Sale of a future in securities	0.02% of the traded price	0.05% of the traded price

### Non-allowability of interest as a deduction against dividend income

- Currently, interest expense incurred to acquire shares is allowed as a tax-deductible expense against dividend income, up to 20% of the dividend income.
- The Budget proposes that no deduction shall be allowed in respect of any interest expenditure incurred for earning dividend income or income from units of mutual funds.

### Rationalisation of return filings

#### *Extending the period of filing revised return*

- The Budget has proposed to extend the limitation for filing a revised return from existing 9 months to 12 months from the end of the relevant tax year, on payment of small fee.
- This amendment will apply from April 1, 2026 for tax year 2026–27 onwards.

### **Impact:**

- The due dates for filing tax returns by various taxpayers ranges from July 31 to November 30, thus leaving a small time period for the taxpayers to revise their returns to rectify errors/omissions. The proposed amendment will benefit the taxpayers to revise their returns of income within the extended period and will thus help in reducing unnecessary litigation with the tax department on the issues which could have been rectified suo-moto by the taxpayer.

### **Scope of filing updated return enhance to cover even reduction of losses**

- The Budget refines the scheme of updated return by expressly allowing taxpayers to file an updated return to reduce the quantum of a loss originally claimed (provided the original return was filed in a timely manner).
- This amendment would take effect from April 1, 2026.

### **Impact:**

- Under the existing provisions, there is restriction to file updated return if such updated return is a return of loss. The proposed amendment provide benefits the taxpayer (especially corporates) to file updated return to declare reduced losses.

### **Allowing filing of updated return after initiation of reassessment**

- The Budget proposes that the taxpayer, in whose case reassessment proceedings have been initiated, be provided with an opportunity to file an updated return pursuant to the notice of reassessment. In such a case, the updated return can be filed on payment of extra 10% of amount of additional tax (over and above the existing amount of additional tax & interest). Pursuant to filing of such updated return, no penalty will be levied on the income declared therein.
- This amendment would apply from April 1, 2026 for tax year 2026–27 onwards.

### **Impact**

- Under the existing provisions, taxpayers are provided with an opportunity to file return of income after issuance of notice of reassessment but there is no express provision providing for immunity of penalty. This has now been specifically provided under the proposed amendment.

## **Rationalisation of assessment, penalty and prosecution provisions**

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### **Common/Integrated order for assessment and penalty**

- Unlike present process, the Budget seeks to rationalise the imposition of penalty along with the assessment in the same order of assessment. This will avoid multiplicity of proceedings.
- This amendment will be applicable for assessment order passed on or after April 1, 2027.

### **Impact**

- For last several decades, assessment proceedings and penalty proceedings are initiated & concluded by the tax department separately. Penalty proceedings are initiated only after completion of assessment proceedings. This two-step process is proposed to be streamlined so that penalty is imposed simultaneously upon conclusion of assessment. While this will decrease multiplicity of proceedings but now assessment and penalty demands will now be raised simultaneously requiring the taxpayer pay penalty amounts at an earlier stage

### *Rationalization of prosecution and penalty proceedings*

- The Budget proposed to decriminalize many offences and thus seeks to rationalize multiple prosecution provisions. This includes replacing rigorous imprisonment with simple imprisonment, lowering maximum terms (upto 2 or 3 years from existing 7 years), introducing fine-only outcomes for lower amounts (less than INR 1 million (USD 11,000)) and fully decriminalizing selected withholding tax related failures.
- The Budget also proposes to expand immunity from penalty and prosecution to also cover serious cases misreporting of income, provided that additional income tax of 20% is paid (over and above the requirement of payment of tax and interest demand) coupled with not filing appeal against the assessment order.
- Similarly, it is proposed that penal provisions for several 'technical' default penalties (like for audit/reporting/Statement of Financial Transaction) be converted into mandatory graded fees, with caps.
- These amendments will be effective from April 1, 2026 and will be applicable for tax year 2026-27.

### **Impact**

- The proposed rationalization of prosecution and penalty provisions clearly reflects the progressive approach of Government in easing out tax administration and gaining confidence of the taxpayer by avoiding unnecessary dispute/litigation.

### *Clarifications on select disputed issues*

- The Budget proposes a suite of clarificatory measures aimed at settling several long-standing tax controversies (some of which are currently sub-judice before the Supreme Court of India). These amendments include the following:

Proposed Amendment	Effective from	Impacted Rulings
The reassessment proceedings can be validly initiated by the Jurisdictional Assessing Officer ('JAO'), and not by Faceless Assessing Officer ('FAO').	With retrospective effect from April 1, 2021	PCIT v. Hexaware Technologies Limited [2024] 464 ITR 430 (Bombay) (including 1000 + batch matters)
No assessment will be invalid merely due to any mistake, defect, or omission in quoting a computer-generated Document Identification Number ('DIN'), provided there is a reference of DIN in the assessment order	With retrospective effect from October 1, 2019	CIT v. Brandix Maruitius Holdings Ltd.: (2023) 293 Taxman 385 (Delhi)
The assessment timelines under Section 153 governs only the draft order and the timelines provided in Section 144C operates for finalization of assessments. Thus, Section 144C overrides the time limit provided in Section 153.	With retrospective effect from April 1, 2009	ACIT v. Shelf Drilling Ron Tappmeyer Ltd. [2025] 177 taxmann.com 262 (SC)

### Impact

- Framed as interpretative amendments and validating provisions, these changes are intended to quell uncertainty, streamline administration, and recalibrate ongoing disputes in favour of the Indian Tax Department. All these amendments seek to nullify existing High Court rulings which have decided these issues in favour of taxpayers. While these amendments have being made applicable retrospectively (going as far back as 2009), it will be interesting to see whether the taxpayers choose to accept these retrospective amendments or would challenge the retrospective operation of these amendments before the Indian courts. Interestingly, no amendment is proposed in relation to the recent rulings favouring tax department like Tiger Global, Hyatt etc.

### Black Money Law Amnesty Scheme

#### Foreign Assets of Small Taxpayers - Disclosure Scheme

- The Budget proposes a one-time amnesty scheme for declaration of foreign assets and foreign-sourced income subject to payment of taxes and/or fees and satisfaction of prescribed conditions. The declarants under this scheme will be granted immunity from penalty and prosecution under the Black Money Act. This scheme is open for persons who were tax residents of India (during the relevant year for which declaration is made).
- The scheme would come into force from the date to be notified by the Central Government.

#### Impact

- Similar one-time window was introduced by Government in the 2015 (when the Black Money Act was introduced) for disclosure of foreign assets/foreign income acquired up to March 31, 2015. Thereafter, due to significant non-disclosure information received under the Automatic Exchange of Information framework which impacted number of individuals, there was a need for such an amnesty scheme. With this proposed amendment, many scenarios having unintended consequences will get addressed such as foreign employment benefits (ESOPs/RSUs), dormant or low-value bank accounts of former students, savings/insurance policies of returning non-residents, and holdings by individuals on overseas deputation.

### Rationalisation of Safe Harbour Provisions

#### Information Technology Services

- Provision of Software development services, IT-enabled services, Knowledge Process Outsourcing services and contract R&D services relating to software development has been clubbed under a single head of 'Information Technology Services'
- Central Government has proposed a uniform safe harbour margin of 15.5% for Information Technology Services.
- The revenue threshold for this sector has been expanded from INR 3 billion (USD 32.7 million) to INR 20 billion (USD 218 million).
- Further, the Safe Harbours for IT services to be approved by automated rule-driven without the intervention of a tax officer for up to five consecutive years.
- This proposal has been introduced to reduce administrative burden, litigation, and accelerate growth of GCCs in India.

#### Data Centre Services

- The scope of safe harbour regulations has been expanded to include data centre services by Indian taxpayer to its associated enterprises.
- Central Government has proposed a safe harbour margin of 15% for data centre services.
- The inclusion of data centre services has been proposed to provide an impetus to multinational enterprises to set-up data centres in India and accord tax certainty.

#### Definition of accountant

- Rationalisation of definition of 'accountant' to support home-grown accounting and advisory firms

Detailed rules explaining the functioning of these provisions are to be issued by the Government.

### Amendments to the Advance Pricing Agreement (APA) programme Timeline for IT sector

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- Timeline of 2 years (extendable by another 6 months at the request of the taxpayer) has been proposed in the Budget for conclusion of unilateral APA .

#### **Modified Returns by Associated Enterprises**

- The Budget proposes to extend the facility of filing of modified income tax return, pursuant to the conclusion of an APA, to the associated enterprises as well.
- This will enable the associated enterprises of the Indian applicant to modify their income corresponding to the terms of the APA.
- On account of this amendment, the associated enterprises will be able to seek refunds in case of downward adjustment of the covered transaction which are taxable for both the parties in India such as royalties and intra-group service payments, etc.
- The timeline proposed for the associated enterprise to file the modified income tax return is same as the timeline defined for the Indian applicant, which is three months from the end of the month in which the APA is concluded.
- This amendment will apply from tax year 2026-27 and onwards.

### Time limit for order of the Transfer Pricing Officer (TPO)

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- The Budget proposes to clarify the manner of computation of the 60 day period prescribed for passing an order by the TPO.
- The proposed amendment clarifies the computation of the 60-day period by prescribing specific dates for passing of the order by the TPO, depending on when the limitation for completion of assessment expires:
  - January 30<sup>th</sup>, where the limitation expires on March 31<sup>st</sup> in a non-leap year
  - January 31<sup>st</sup>, where the limitation expires on March 31<sup>st</sup> in a leap year
  - November 1<sup>st</sup>, where the limitation expires on December 31<sup>st</sup>

- This clarification is proposed to be made effective from June 1, 2007 for Income Tax Act, 1961 and the same shall be included as an amendment in the Income Tax Act, 2025 with effect from April 1, 2026.

### **Fee for non-furnishing of Transfer Pricing audit report**

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- As part of the proposed rationalisation of penalty and prosecution framework, the penalty for non-furnishing of the transfer pricing audit report / accountant's certificate in Form 3CED has been proposed to be converted into a fee.
- Failure to furnish the transfer pricing audit report shall attract a fee of:
  - INR 50,000 (USD 545) for a delay up to one month; and
  - INR 100,000 (USD 1,090) for period beyond one month.

## Key Amendments Proposed on Indirect Taxes

### Key amendments to The Customs Act, 1962 (Customs Act) [to come into effect on enactment of Finance Bill unless otherwise specified]

S. No	Proposal	Impact
1	Jurisdiction of Customs Act extended beyond territorial waters for fishing and related activities. Definition introduced for 'Indianflagged fishing vessel.' in the Customs Act	New Section 56A introduced for fishing beyond territorial waters, where fish harvested, may be brought into India duty free or landed at foreign port – duty free
2	Penalty paid under Section 28(5) shall be deemed to be a charge for nonpayment of duty	This stops further proceedings on penalty. Also, the amount paid in addition to the duty (as penalty) is reclassified as 'charge for non-payment of duty'.
3	Validity of advance rulings extended to five years or until change in law/facts, whichever earlier. Existing rulings may be extended for five years upon applicant's request.	The extended validity of binding rulings will improve the ease of doing business by reducing the need for frequent renewals and providing long-term predictability for import/export classification and valuation
4	Section 67 substituted to allow removal of warehoused goods between bonded warehouses without prior permission, subject to prescribed conditions.	This will now reduce compliance for the owner of the goods, as permission of the proper officer for movement of such goods between bonded warehouse will now not be required.
5	Social Welfare Surcharge (SWS) will be levied on all dutiable goods imported for personal use w.e.f. 1 April 2026. SWS will be exempt for goods under heading 9503 (Toys) from 2 February 2026	SWS levied at 10% of BCD. Although the BCD on goods imported for personal use has been reduced from 20% to 10%, the SWS becomes an additional cost.

### Basic Customs Duty Exemptions [effective from 2 February 2026 unless otherwise specified]

S. No	Proposal	Impact
1	<b>BCD exemption extended to Battery Energy Storage Systems (BESS):</b> BCD exemption available on capital goods for manufacturing Lithium Ion Cells for EV batteries extended to BESS	This will incentivize the manufacturing sector for Lithium Ion Cells in India
2	<b>New BCD exemption for aircraft MRO inputs via MoD PSUs:</b> Raw materials for manufacturing aircraft parts used for MRO, including engines, get BCD exemption when imported by PSUs under Ministry of Defence (MoD). The exemption is subjected to procedure set out in Customs (Import of Goods at Concessional Rate of Duty or for Specified End Use) Rules, 2022 (IGCRS Rules 2022) and an end-use certificate from a MoD Joint Secretary or above	This will incentivize the aircraft MRO industry in India providing relief for public sector unit suppliers in the defence sector
3	<b>BCD exemption for aircraft manufacturing components:</b> Components/parts, including engines, for manufacturing aircraft and parts qualify for BCD exemption. Compliance required with IGCRS Rules 2022	This will incentivize the aircraft component manufacturing industry which is showing steady growth over the years
4	<b>Expanded nuclear power project exemption and extended validity:</b> Coverage now includes goods for setting up specified nuclear projects irrespective of capacity, with Department of Atomic Energy (DAE). Validity extended to 30 September 2035 and eligibility covers contracts registered on or before 30 September 2035	This policy aims to accelerate India's goal of achieving 100 GW of nuclear capacity by 2047
5	<b>National Policy for Rare Disease (NPRD) 2021</b> to include 7 rare diseases, extending customs duty exemption to drugs, medicines. BCD exemption extended to 17 life saving drugs	This proposal extends the social welfare objectives of the government and serves a much awaited ask from stakeholders to import life saving drugs

### Other Miscellaneous Amendments in Customs Law

S. No	Proposal	Impact
1	Deferred payment of import duty moved to a monthly cycle from the existing 15 days and a new class of 'eligible importers' notified via amendments to the Deferred Payment of Import Duty Rules, 2016.	Extended period will increase cash flow for importers
2	Baggage Rules, 2016 superseded by Baggage Rules, 2026 to rationalize provisions, clarify temporary carriage of goods, and restructure Transfer of Residence benefits based on duration of stay; effective midnight of 02.02.2026. Legacy baggage regulations consolidated:	A long awaited amendment to the Baggage Rules. However, limit increase for imports and other provisions have not been specified. Master Circular will be issued to consolidate statutory provisions and provide operational instructions for clarity

### Review of Exemptions Provided by Customs Notifications:

- A comprehensive review has been undertaken in respect of conditional and unconditional exemptions/concessional rate entries. The summary of changes is as below:
- Notification No. 45/2025-Customs dated 24 October 2025:
  - 102 exemptions/concessional rates are being extended till 31 March 2028
  - 22 exemptions/concessional rates lapse on 31 March 2026
  - Sunset clause is being removed from 3 unconditional exemption entries and inserted for 4 entries in accordance with Section 25(4A) of the Customs Act

- Notification No. 36/2024-Customs dated 23 July 2024 and others.
  - 22 exemption entries are being omitted as termed redundant. The applicable BCD for these entries will operate through the First Schedule to the Customs Tariff Act, 1975, w.e.f. 02 February 2026.
- Others
  - BCD exemptions prescribed through 4 customs notifications are being extended till 31 March 2028

### Ease of Doing Business – Simplified Customs Processes

S. No	Reform	Details
1	Duty Deferral for AEOs	Extended from 15 days to 30 days for Tier 2 & Tier 3 Authorised Economic Operators; same facility extended to eligible manufacturer-importers
2	Single Digital Window	All inter-agency cargo clearances to be seamlessly processed through a single interconnected digital window by FY end; food, drugs, plant, animal & wildlife products (70% of interdicted cargo) to be operationalised by April 2026
3	Electronic Sealing	Factory-to-ship clearance for export cargo using electronic sealing
4	Warehouse Reforms	Customs warehousing framework transformed to warehouse operator-centric system with self-declarations, electronic tracking and risk-based audit - moving away from officer-dependent approvals

S. No	Reform	Details
5	Customs Integrated System (CIS)	To be rolled out in 2 years as a single, integrated and scalable platform for all customs processes
6	Non-Intrusive Scanning	Use of advanced imaging and AI technology for risk assessment to be expanded with objective to scan every container across all major ports

The other key proposals involving changes in rates by notification (BCD has been reduced or exempted): [Illustrative Commodities]

Changes in Basic Customs Duty (to be effective from 2 February 2026 unless otherwise specified)		Rates of Duty	
Chapter, Heading	Illustrative Commodity	From	To
2612 20 00	Monazite	2.5%	NIL
2841 90 00	Sodium antimonate for use in manufacture of solar glass	7.5%	NIL
2815 20 00	Potassium hydroxide	NIL	7.5%
8401 30 00	All goods for generation of nuclear power	7.5%	NIL
8401 40 00	Control and Protector Absorber Rods, and Burnable Absorber Rods, for generation of nuclear power	7.5%	NIL
8501 10 20, 8504 31 00, 8516 80 00, 8516 90	Specified goods for use in the manufacture of Microwave Ovens	As applicable	NIL
6601 91 00, 6601 99 00	Umbrellas (other than garden umbrellas)	20%	20% or Rs. 60 per piece, whichever is higher
6603 20 00, 6603 90 10, 6603 90 90	Parts, trimmings and accessories of articles of heading 6601 to 6602	10%	10% or Rs. 25 per kg., whichever is higher
9804	All dutiable goods, imported for personal use*	20%	10%

### Goods and Service Tax (GST)

S. No	Proposal	Impact [amendments to be implemented by notification unless otherwise specified]
1	<p>Post sale discount no longer needed to be linked to prior agreements for exclusion of such post-supply discounts from the value of supply</p> <p>The CGST Act will be amended to do away with the requirement of linking the post-sale discount with an agreement and to refer to issuance of credit note under Section 34 of the CGST Act, 2017 where the input tax credit is reversed by the recipient.</p>	<p>This amendment clarifies the treatment of discounts for valuation purposes under the GST Law as the discounts can now be dynamic and commercially driven without fearing tax demand, provided ITC is reversed by the recipient.</p>
2	<p>The CGST Act will be amended to expressly include post-sale discounts as a ground for issuance of credit notes</p>	<p>This proposed modification directly addresses the issuance of credit notes in scenarios involving discounts and exclusion of discounts from valuation of supply</p>
3	<p>The CGST Act, 2017 will be amended to extend the provisions of provisional refund to refunds, to refunds arising out of inverted duty structure. The scope of 90% provisional refund is proposed to be extended to unutilised ITC arising from inverted duty structure. These provisions will come into force by way of a notification which will be issued by the Central Government.</p> <p>The CGST Act is also being amended to remove the threshold limit (presently no refund if amount is less than INR 1000) for sanction of refund claims in case of goods exported out of India with payment of tax</p>	<p>This amendment will increase the working capital flow for the exporters. Recommended by the 56th GST Council meeting</p>

S. No	Proposal	Impact [amendments to be implemented by notification unless otherwise specified]
4	Place of supply of intermediary services changed from place of supplier to location of recipient	Recommended by the 56th GST Council. Once notified, this change will have a significant impact on cross border transactions, which will qualify as exports (subject to fulfilment other conditions) ending litigation re: intermediary services, and facilitating refunds for exporters of service
5	Pending the constitution of The National Appellate Authority, any existing Authority / Tribunal may be empowered to hear appeals under the CGST Act, 2017 [appeals from appellate authority of advance ruling].	This amendment will be effective 1 April 2026. Provides a second appeal provision for advance ruling orders. Prevents backlog in the appellate process and lessens burden on jurisdictional High Courts

## Special Economic Zone Proposals

S. No	Proposal	Impact [amendments to be implemented by notification unless otherwise specified]
1	Introduction of special one time measures to facilitate sale in the Domestic Tariff Area (DTA) at concessional rate of duty, by eligible manufacturing units in SEZ(s). This will be proportional to their export revenue of the previous year	This will enable DTA clearances from SEZ to utilize capacity within existing SEZ (s), and optimize stagnant SEZ operations at par with DTA manufacturers.

### National Calamity Contingent Duty (NCCD) and Central Excise

- NCCD Schedule rates revised for chewing tobacco, jarda-scented tobacco, and other tobacco products (HSN 2403 99 10/30/90) from 1 May 2026. Effective rate remains 25% as per Notification No. 01/2026 Central Excise dated 1 February 2026.
- Valuation of blended CNG [with biogas/Compressed Biogas (CBG)]: The entire value of biogas/CBG and the appropriate GST paid on such biogas/CBG contained in blended CNG is now excluded from the transaction value for computing central excise duty, promoting cleaner fuel adoption.
- Additional excise duty of INR 2/litre on unblended diesel deferred till March 31, 2028 (under Notification No. 02/2026CE dated 1 February 2026)

**Disclaimer**

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