

B. K. Khare & Co.
Chartered Accountants

Budget Analysis 2026



B. K. Khare & Co.
Chartered Accountants

Budget Analysis 2026

This publication is a service to our clients based on a quick appreciation of the budget proposals and must not be regarded as professional advice, authoritative opinion or the sole basis for your decisions. This publication does not constitute an offer or solicitation. For Private Circulation only.

Contents

02

Editorial

07

Economic Survey 2026

24

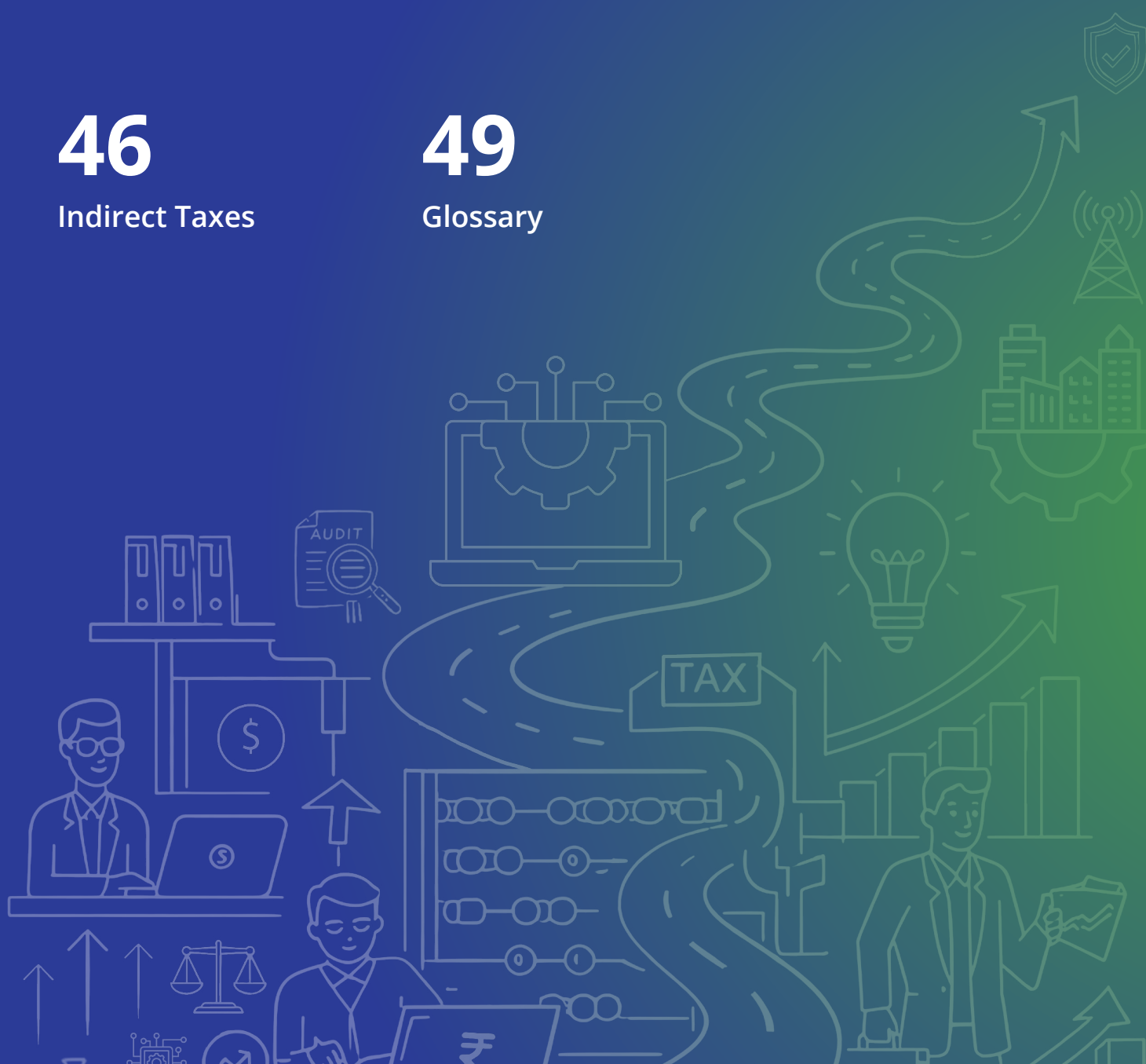
Direct Taxes

46

Indirect Taxes

49

Glossary





Dear Esteemed Reader,

On Sunday, February 1, 2026, India's Union Budget was presented in Parliament on a day traditionally reserved as a holiday — the first time this has ever happened. At the same time, Finance Minister Nirmala Sitharaman made history by presenting her ninth consecutive Union Budget, the longest unbroken run by any finance minister in India's parliamentary history and a record for any woman in the role.



This year's Budget also marks a symbolic transition in India's fiscal governance: with the Ministry of Finance having shifted its official address to the newly inaugurated Kartavya Bhavan complex, the presentation underscores a renewed institutional anchoring of economic policymaking. In many ways, this spirit of renewal and duty — reflected in the theme of the three Kartavyas underpinning the Budget's proposals — sets the tone for the priorities and ambitions outlined in the fiscal roadmap for the year ahead.

As India presents its Union Budget, the country's economy finds itself at a critically important crossroads. The Indian economy is once again among the fastest-growing major economies in the world, with real GDP growth estimated at around 7.4 % in FY 2025-26, supported by robust consumption and investment demand. Despite persistent global headwinds, this growth trajectory has helped India reinforce its role as a leading driver of global economic expansion.

Yet the external environment remains fraught with complexity. Rising protectionist measures — including renewed tariff actions by the United States — and intensifying geopolitical tensions in energy-producing regions, such as Venezuela, have disrupted global trade flows and heightened volatility in commodity markets. These external pressures have translated into sustained rupee depreciation, with the Indian currency trading near

historic lows against the US dollar, and have weighed on sentiment among global investors.

India's external position presents a mixed picture. On the one hand, the country's foreign exchange reserves remain substantial, providing a buffer against external shocks. On the other, foreign direct investment inflows — though recovering — have not yet reached the robust levels needed to meaningfully accelerate domestic investment and capacity expansion. Portfolio flows, too, have shown volatility in response to shifting global risk perceptions, underscoring the sensitivity of emerging market capital markets to external conditions.

Domestically, macroeconomic stability remains a key anchor. Inflation has moderated, reinforcing consumer confidence, while fiscal discipline is being maintained even as public investment is scaled up. At the same time, structural challenges endure: generating sufficient employment for a young and expanding workforce, addressing uneven recovery across sectors, and reinvigorating private investment are among the most pressing priorities.

The Economic Survey 2025-26 describes this as India's "Goldilocks moment" — high growth coexisting with historically low inflation. This is more than a favourable data point; it is the political-economic space that makes the Budget's structural ambitions feasible. Buoyant revenues provide fiscal room without breaching deficit

commitments, while subdued inflation permits the Reserve Bank to maintain an accommodative stance. It is this convergence that allows the government to pursue deregulation, manufacturing diversification and institutional overhaul without the trade-offs — voter discomfort, market anxiety, monetary tightening — that typically accompany reform episodes. The Goldilocks moment is the enabler but not the destination.

Despite these challenges, India's structural strengths offer a firm foundation for future growth. A large demographic dividend, world-leading digital public infrastructure, an expanding formal sector, and a dynamic services ecosystem, position the country to leverage productivity gains and integrate more deeply into reconfigured global value chains. Continued commitment to public capital expenditure — particularly in infrastructure and logistics — aims to catalyse private investment and expand supply-side capacity across the economy.



The Union Budget 2026 is more than an annual financial statement — it is a strategic policy compass, designed to navigate global fragmentation while reinforcing India's growth engines at home.

Against this backdrop, the Union Budget 2026 is more than an annual financial statement — it is a strategic policy compass, designed to navigate global fragmentation while reinforcing India's growth engines at home. This commentary evaluates how effectively the Budget responds to immediate economic realities, restores investor confidence, and lays the groundwork for sustainable, inclusive, and future-ready growth.

The Economic Survey, tabled three days before this Budget, laid out an ambitious framework: the "entrepreneurial state" as market-shaper, deregulation as a primary growth lever, and an upgrade of India's potential growth ceiling from 6.5 to 7% — contingent on sustained reform. The Budget responds with notable coherence; its three-Kartavya architecture maps directly to the Survey's

growth-capacity-inclusion thesis, suggesting a conscious dialogue between the two documents rather than independent formulation.

Yet a candid reading reveals that the Budget's approach is incremental-institutional rather than legislatively transformative on some factors the Survey identifies as most critical. Land reform — which the Survey singles out as deserving "equal priority, if not more" than labour reform — receives allocations but no measures addressing fragmented titles, restricted density or conversion barriers. Private investment, flagged as constrained by sub-threshold capacity utilisation and a structural cost-of-capital premium, is met with review committees rather than direct catalytic intervention. The R&D funding vehicle, welcome as it is, provides INR 20,000 crore against a requirement an order of magnitude larger. The Budget establishes the architecture of reform — committees, frameworks, coordination forums — that builds consensus for execution; whether this represents prudent sequencing or insufficient use of the political capital the Goldilocks moment affords is the central question this fiscal roadmap leaves unanswered.

The fiscal architecture determines the envelope within which all three Kartavyas must operate. The deficit narrows to 4.3% of GDP in FY27, the gentlest step in a consolidation that began at 9.2% in FY21. Nominal borrowing is rising, but growth absorbs it, and what is borrowed matters: the capex-to-deficit ratio has climbed from 57 to 72%, with effective capital expenditure exceeding 100% of the deficit, meaning virtually every rupee finances asset creation rather than current consumption. The structural shift to a debt-to-GDP anchor of 50±1% by FY31, aided by a favourable 3% point growth-interest rate differential, should over time buy counter-cyclical room. Two caveats bear noting: state debt adds 28 to 30% of GDP, pushing General Government debt to 83–85%, which is the metric rating agencies actually assess; and the entire arithmetic assumes 10% nominal growth after FY26 delivered just 8% on a five-decade-low deflator. If nominal growth disappoints again, the glide path steepens precisely when flexibility is most needed.

The Budget also extends a sustained regulatory reset. The new Income-Tax Act, compressing nearly 820 sections into 530, takes effect in April 2026; four labour codes consolidating 29 laws have been notified; and FEMA's foreign investment rules and the customs architecture are being overhauled simultaneously. The quieter but arguably more consequential thread is the systematic decriminalisation of the citizen's relationship with the

state, converting criminal liability for procedural lapses into civil penalties, grading punishments proportionally, and extending prosecution immunity for good-faith compliance. The cumulative direction is toward a regulatory environment that presumes good faith rather than anticipates violation; this is a precondition for the private investment revival the growth model requires.

Within this fiscal and regulatory foundation, the Budget organises its sectoral response around a single structuring principle. It is fitting that the first Budget prepared within its renamed walls chose obligation as its architectural principle. Where previous Budgets reached for aspirational metaphors — the Saptarishi stars in 2023, the four engines of 2025 — this one reaches for something more grounded: *kartavya*, the Sanskrit concept of duty that carries within it both the weight of responsibility and the grace of purposeful action. Finance Minister Sitharaman's 'Yuva Shakti-driven Budget' acknowledges what the Economic Survey makes plain: India's growth model must now solve for employment, not merely output. With 10–12 million youth entering the workforce annually, a demographic dividend that peaks within this decade, and AI reshaping the very definition of work, the three *Kartavyas* represent a structured response to a finite window. Growth (*Kartavya 1*) creates the economic space. Capacity-building (*Kartavya 2*) prepares the people. Inclusion (*Kartavya 3*) ensures no region or community is left behind. As the sectoral analysis that follows demonstrates, the three *Kartavyas* move from economic foundation through human capital to regional equity, each building on the one before.

The First *Kartavya* — accelerating and sustaining growth — anchors India's strategic diversification in sectors where global supply chains are being actively redrawn, while building the employment pipelines for 10–12 million annual workforce entrants.

The frontier sectors attract the largest fiscal commitments. India Semiconductor Mission 2.0 raises the commitment to INR 40,000 crore, extending beyond fabrication into equipment, materials, intellectual property and design; a parallel INR 40,000 crore electronics components programme targets the missing middle of the supply chain, where India currently imports over 50% of its needs. Rare earth corridors in Odisha, Kerala, Andhra Pradesh and Tamil Nadu, backed by customs exemptions on critical mineral processing equipment, address the resource layer that underpins both semiconductor and clean energy value chains; and the National Manufacturing Mission provides the coordinating umbrella that previous

sector-specific schemes lacked. The scale is ambitious; execution across a five-to-seven-year gestation cycle and against intensifying competition from the United States, the European Union and Japan remains the binding constraint.

The MSME interventions operate on a parallel track. Reclassification at 2.5 times the existing investment threshold and double the turnover ceiling brings a significantly larger cohort into the formal support framework; a INR 10,000 crore SME Growth Fund and a INR 2,000 crore top-up to the Self-Reliant India Fund provide patient equity rather than additional debt; and the sixty-day payment mandate enforced through TReDS, with CPSE participation mandated and CGTMSE guarantees extended, addresses the receivables constraint that starves working capital more effectively than any credit line can.

Manufacturing ambitions require functional cities, and the Budget acknowledges this constraint. City Economic Regions, funded at INR 5,000 crore per CER over five years, represent the Budget's most significant urban governance intervention; the ten-thousand crore Urban Challenge Fund, allocated competitively, creates incentives for municipal reform rather than merely channelling central transfers. The explicit encouragement of municipal bonds, backed by credit enhancement mechanisms and standardised disclosure norms, attempts to build a subnational debt market that could eventually do for Indian cities what revenue bonds did for American metropolitan infrastructure; the gap between this ambition and the current state of municipal finances, where own-source revenue rarely exceeds 40% of expenditure, will determine whether this remains a pilot or becomes a system.

The financial sector measures are institutional rather than transactional. A High-Level Committee on Banking, the first comprehensive review since Narasimham, signals that the architecture designed for a two-trillion-dollar economy requires recalibration for one approaching five trillion. The restructuring of PFC and REC into a unified development finance institution, corporate bond market deepening measures, CPSE REITs for asset recycling, and an Infrastructure Risk Guarantee Fund collectively address the long-maturity financing gap that bank-dominated intermediation cannot fill. Insurance at 100% FDI, already enacted, and the Securities Markets Code under standing committee review complete an overhaul that touches every segment of financial intermediation; the Forum for Regulatory Coordination attempts to

ensure these parallel reforms do not generate arbitrage or supervisory gaps.

The second duty turns from production to people, addressing the aspirations of a population where 25 crore have exited multidimensional poverty and the imperative shifts from subsistence to capability.

The demographic dividend is ultimately a human capital question. Education and research receive institutional commitments: five university townships near industrial corridors, PM SETU upgrading ITIs at INR 6,141 crore, and Atal Tinkering Labs at INR 3,200 crore build the training infrastructure, while the INR 20,000 crore Research, Development and Innovation scheme provides India's first dedicated public R&D funding vehicle outside the atomic and space establishments. At 0.64% of GDP, gross expenditure on research remains a fraction of the 2% target the Economic Survey considers necessary; the RDI scheme is a beginning, not a solution, but it establishes the institutional precedent that future governments can scale.

Healthcare bridges manufacturing capability with human capital investment. Biopharma SHAKTI commits INR 10,000 crore over five years to biologics and biosimilar manufacturing, supported by three new pharmaceutical research institutes and a thousand clinical trial sites; duty exemptions on seventeen cancer and seven rare disease drugs ensure that production capability is matched by patient access. Five Regional Medical Hubs and the training of 100,000 allied health professionals and 150,000 caregivers over five years build the services ecosystem around this manufacturing base. Three new All India Institutes of Ayurveda and the upgrading of the WHO Global Traditional Medicine Centre in Jamnagar extend this logic to systems of medicine where India holds a natural comparative advantage. A second NIMHANS for north India and expanded trauma capacity in district hospitals address care deficits closer to the ground.

Tourism captures barely 1.5% of global arrivals despite India's geographic and cultural endowment, and the Budget treats this gap as a services export opportunity. A National Institute of Hospitality and 10,000 guides upskilled through IIM-partnered courses at twenty iconic sites professionalise a sector that has relied on informal training; fifteen archaeological heritage sites are being developed as experiential destinations alongside mountain, turtle and birding trail networks that diversify beyond the established circuits. Buddhist tourism across the north-eastern states and five destinations in the

Purvodaya region extend the geographic footprint. The interventions are modest in fiscal terms but address the supply-side constraints, in infrastructure, human capital and digital marketing, that have made Indian tourism an underperformer relative to its natural advantages.

The third duty addresses the half of India that the first two risk leaving behind, ensuring that Yuva Shakti is not merely metro Yuva Shakti.

Agriculture receives a restructured support architecture. PM Dhan-Dhaanya Krishi Yojana targets 100 districts for productivity-led transformation; the Bharat-VISTAAR platform integrates AgriStack with ICAR research to deliver AI-enabled crop advisory at scale; and the commodity-specific programmes for coconut, cashew, cocoa and sandalwood pursue self-reliance in plantation crops where India imports despite holding favourable growing conditions. Fisheries expansion across 500 reservoirs and the Amrit Sarovar network, credit-linked subsidies for animal husbandry, and SHE-Marts for rural women entrepreneurs diversify rural livelihoods beyond crop cultivation. The MGNREGA restructuring into VB-G-RAM-G at INR 95,692 crore, with the programme component reduced to INR 30,000 crore, signals a shift from wage guarantee to asset creation; whether this transition preserves the safety net function while improving productivity outcomes is the implementation test the rural economy now faces.

The imperative of maintaining fiscal discipline and adhering to the stated fiscal deficit glide path is particularly challenging under current economic conditions. Tax revenue buoyancy has moderated, with Revised Estimates indicating a 4.5% shortfall relative to last year's Budget Estimates. Against this backdrop, the Budget projects an ambitious 8% growth in gross tax revenues, including 11% growth in direct tax collections — targets that may prove difficult to achieve given prevailing economic and corporate earnings trends. The pressure is compounded by optimistic assumptions on non-tax revenues, particularly higher dividends from the RBI and public sector enterprises. Together, these revenue expectations narrow the fiscal space available to the government and help explain why the FM had limited room to offer broad-based tax concessions.

That said, the Budget signals a clear shift in approach: rather than relying on immediate tax relief, it prioritises structural improvements in the tax and regulatory environment. A series of measures aimed at improving

the ease of doing business, attracting investment, and decriminalising technical and procedural provisions reflect an effort to reduce compliance burdens and enhance trust in the system. Importantly, the emphasis on building a stable, predictable, and forward-looking tax framework underscores the government's recognition that long-term investment decisions depend as much on policy certainty as on tax rates themselves.

- ◆ **New Income Tax Framework:** Introduction of a new Income Tax Act effective from April 1, 2026, aimed at simplification and reducing compliance complexity.
- ◆ **No change in basic income tax slabs:** The current slabs and standard deduction remain unchanged, reflecting limited fiscal space for broad tax relief.
- ◆ **Tax compliance and administration reforms:** Extended deadlines for filing revised returns, automated issuance of lower/nil TDS certificates, and PAN-based TDS implementation on non-resident property sales are intended to reduce friction and litigation.
- ◆ **TCS rationalised:** Significant reductions in TCS on overseas tour packages, education and medical remittances under LRS to 2%, easing upfront cost for taxpayers.
- ◆ **Targeted exemptions and incentives:** Measures such as exemption of interest awarded by motor accident claims from tax, NRI tax incentives and rationalisation of penalties and prosecution for technical defaults aim to improve taxpayer confidence and compliance.
- ◆ **MAT reforms:** MAT is proposed to become a final tax at a reduced rate (14%), with carry-forward credits usable only under the new regime — signalling a move toward simplification in corporate taxation.
- ◆ **Tax proposals extending IFSC tax holiday to 20 years,** followed by a concessional tax regime; tax holiday to foreign companies availing data centre services in India and those providing tools/machinery to their contract manufacturer in custom bonded warehouse in India; safe harbour rationalisation; faster advance pricing arrangements are expected to attract foreign capital and provide tax certainty for cross border operations.

A notable feature of this Budget is the continued push toward decriminalisation of technical and procedural defaults, signalling a shift in philosophy from enforcement-driven compliance to trust-based governance. By removing or softening penal provisions for minor and non-wilful lapses, the government aims to reduce the fear of prosecution that has often weighed on businesses and professionals. Coupled with measures that seek to provide greater predictability and stability in tax policy, these reforms are intended to encourage long-term investment decisions by strengthening confidence in the tax system.

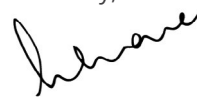
On the indirect tax side, changes are relatively limited and largely targeted. Customs duty adjustments are focused on supporting domestic manufacturing, strategic sectors, and export competitiveness, alongside procedural simplifications to ease trade. The broader message, however, is clear: rather than relying on tax cuts as a stimulus tool, the Budget seeks to create a more transparent, less adversarial, and investment-friendly tax environment that can support growth while preserving revenue needed to maintain the fiscal deficit glide path.

This year's Economic Survey, like last year's, invokes the Katha Upanishad's choice between Śreya and Preya — the enduring good over fleeting comfort. The Budget's answer is kartavya: duty reframed as obligation rather than choice. But obligation without execution is aspiration by another name; the next twelve months will reveal whether the three Kartavyas lead India from resilience to strategic indispensability.

BKK's own kartavya remains unchanged: to bring clarity, rigour and honest assessment to India's most consequential annual policy statement.

As always, I look forward to receiving your valuable feedback and comments on the contents of this publication, which it must be said is no substitute for any professional advice, but an expression of our views interlaced with our practical experience.

Sincerely,



Padmini Khare Kaicker

Managing Partner

B. K. Khare & Co.

B. K. Khare & Co.
Chartered Accountants

Economic Survey 2025-26 Analysis

Swadeshi 2.0: From Resilience to Strategic Indispensability
Swayambhu Bharat

February 2026

INTRODUCTION

The Economic Survey 2025-26, tabled in Parliament on January 29, 2026, serves as the government's most comprehensive articulation of economic strategy. Its central thesis—"From Resilience to Strategic Indispensability"—frames India's trajectory not as a continuation of post-pandemic recovery but as a deliberate repositioning in the global economic order. The Survey projects FY27 real GDP growth at 6.3–6.8%, acknowledging headwinds from global trade fragmentation while arguing that India's structural reforms and demographic positioning create conditions for sustained high growth.

The emphasis on manufacturing—particularly under "Swadeshi 2.0"—signals recognition that services-led growth alone cannot deliver the employment intensity, technology absorption, and balance of payments stability that India's next development phase requires. This analysis examines the Survey's key arguments, assesses its evidence base, identifies structural gaps between aspiration and execution, and connects the Survey's strategic framework to the Union Budget 2026-27's fiscal and policy response.

1. Executive Overview

1.1 Survey's Central Theme: From Resilience to Strategic Indispensability

The Economic Survey 2025-26's central thesis—"From Resilience to Strategic Indispensability"—represents a fundamental evolution in how India positions itself in the global economy.[5] This is not rhetorical flourish but strategic reorientation: resilience, demonstrated through the pandemic, is fundamentally defensive. Indispensability is proactive—becoming so integral to global value chains and technology ecosystems that the world economy functions better with Indian participation than without.

The Survey argues India must move from being an alternative (the "China Plus One" framing) to being a principal—an architect of new value chains rather than a beneficiary of others' realignment decisions. This requires moving beyond cost arbitrage to capability building, beyond assembly to design, beyond services outsourcing to product innovation.

The pathway operates across three tiers: first, stabilise essential supplies (APIs, semiconductors, energy storage); second, build competitive manufacturing where India can achieve scale (textiles, electronics, automotive components); third, strengthen advanced manufacturing for global markets. Each tier requires different policy instruments—protection for the first, Production Linked Incentive (PLI)-style incentives for the second, R&D investment for the third—but all converge on manufacturing competitiveness as the foundation.

The "Goldilocks moment" the Survey describes—real GDP growth of 7.4% alongside headline inflation of 1.7% (April-December 2025, the lowest since the current CPI series began)—matters not for its own sake but because it creates macroeconomic space for structural transformation.[5] The Survey projects FY27 real GDP at 6.8–7.2%, while the Budget's fiscal arithmetic is built on 10% nominal GDP growth (implying approximately 6.3–6.5% real growth after the GDP deflator), sitting comfortably within the Survey's range. High growth with low inflation is typically difficult to achieve simultaneously; this unusual alignment provides a reform window for structural changes—factor market reforms, industrial policy shifts, fiscal reallocation—without immediate inflation or growth penalties.

Equally important, the Goldilocks configuration insulates India against global risks. In a world where 28 of 30 conflict scenarios carry greater than 50% probability,[24] India's macroeconomic stability provides a buffer that most emerging markets lack—enabling counter-cyclical policy responses if external shocks materialise.

Several structural themes underpin the framework: the entrepreneurial role of the state as market-shaper, deregulation as growth enabler, agriculture as a growth sector rather than welfare obligation, urbanisation as economic infrastructure, and technology as a strategic asset. The upgrade of potential growth from 6.5% to 7% reflects structural improvements in formalisation, digitalisation, and infrastructure that have expanded productive capacity.

1.2 Key Numbers at a Glance

The macroeconomic dashboard provides context for the analysis that follows:

Macroeconomic Dashboard (*Apr-Dec 2025, E=Estimate, B=Billion, BE=Budget Estimates)

Indicator	FY 2024-25	FY 2025-26	Assessment
GDP Growth (Real)	6.5%	7.4%	↑ Strong recovery
GDP Growth (Nominal)	9.8%	8.0%	Moderating (deflator)
CPI Inflation	4.9%	1.7%*	↓ Historic low
Fiscal Deficit (Centre)	4.8%	4.4%	↓ On track
Current Account Deficit	-1.2%	-1.0% to -1.2% (E)	Monitor
GFCF (% of GDP)	33.7%	33.8%	→ Flat
Merchandise Exports (\$B)	~437	~450E	↑ Record
Services Exports (\$B)	~363	~375E	↑ Strong
Forex Reserves (\$B)	654.0	701.4	↑ Comfortable

The Deflator Compression: Real vs. Nominal GDP Growth

Metric	FY 2024-25	FY 2025-26 (E)	FY 2026-27 (BE)
Real GDP Growth	6.5%	7.4%	~6.3–6.5%
Nominal GDP Growth	9.8%	~375E	10.0%
Implied GDP Deflator	~3.1%	701.4	~3.5–3.7%

Source: NSO First Advance Estimates (January 2026), Provisional Estimates (May 2025), Union Budget FY26 Documents. FY26 deflator is the lowest since the 2011-12 GDP series began (CRISIL).

The divergence between real GDP growth (accelerating) and nominal GDP growth (decelerating) is the most consequential macroeconomic development for fiscal planning. Real GDP reached 8.2% in Q2 FY26, yet nominal GDP growth is estimated at just 9.9%—implying a deflator of ~1.6%, a five-decade low. The FY26 Budget was calibrated to 10.1% nominal growth; the 2.1pp (percentage point) miss means ~INR 6.8 lakh crore in "missing" nominal GDP, and tax buoyancy underperforms even as real activity expands. FY27 assumes 10% nominal—requiring deflator normalisation toward 3–3.5%.

The corporate channel reinforces this puzzle: when output prices are flat or falling while input costs rise with rupee depreciation, profit margins compress—precisely the conditions that delay capacity expansion regardless of interest rate signals.

2. Global Scenarios and External Risks

2.1 Three Scenarios Framework

The Survey presents a probability-weighted scenario framework for FY27:

Scenario A: Business as in 2025 (40-45% probability)—Current trajectory continues with trade tensions managed, no major conflict escalation, gradual monetary easing. India growth: 6.8-7.2%. This is the Survey's baseline.

Scenario B: Systemic Stress (30-35% probability)—A major shock crystallises: Taiwan Strait disruption, Middle East escalation, or synchronised trade war. India growth: 5.5-6.0%, with inflation spiking on commodity disruptions.

Scenario C: Managed Stabilisation (20-25% probability)—De-escalation through negotiated settlements, WTO reform, coordinated climate action. India growth: 7.0-7.5%.

2.2 Key External Risks: Tariffs, CBAM, and Geopolitical Flashpoints

US tariff policy dominates the near-term risk register. The announced 25% reciprocal tariff would affect ~\$80 billion in bilateral trade. India's average applied tariff of 17% versus the US's 3.4% makes reciprocity punitive; the Budget's reduction on ~8,800 items signals willingness to negotiate.

The **EU's Carbon Border Adjustment Mechanism (CBAM)**, entering full implementation in 2026, creates significant exposure for India's steel (~2.5 tonnes CO₂/tonne versus EU's 1.3), aluminium, cement, and fertiliser exports.

India's response is structural: the Carbon Credit Trading Scheme (CCTS), covering ~740 entities across nine sectors from FY26, establishes domestic carbon pricing. Under CBAM rules, domestic carbon costs are deductible—converting a trade threat into competitive infrastructure.

China concentration risk spans multiple dimensions: 70%+ of APIs, 90%+ of certain electronics components, and dominant shares in solar panels, batteries, and rare earth processing. The Budget's "Level Playing Field" customs actions—anti-dumping duties, safeguard provisions, quality controls—target this competitive pressure, while PLI schemes build alternative domestic capacity.

Geopolitical flashpoints add layers of risk that commodity prices and trade policy alone do not capture:

Ukraine-Russia (Year 4): India's Russian crude imports face secondary sanction risk. Eurasia Group rates "Russia fights on" among top 2026 risks.[23]

Middle East / Red Sea: Houthi disruptions have increased India's freight costs 15-20% on European routes.[23]

Taiwan Strait: CFR assesses >50% probability of crisis in 2026.[24] Semiconductor disruption would be catastrophic—hence domestic fab urgency.

2.3 FTAArchitecture: India's New Trade Framework

The India-EU FTA (January 2026)—zero duties on 90% of goods with 10-year phase-in—provides access to 450 million consumers.[10] Textiles analysis suggests 6-7 million jobs from expanded production.

The India-UK CETA (signed July 2025) provides 99% duty elimination, targeting trade expansion from \$56 billion to \$120 billion by 2030.[11] The India-EFTA TEPA brings a distinctive element: \$100 billion in investment commitment over 15 years,[12] catalysing technology transfer beyond what trade agreements alone achieve.

US-India Bilateral Trade Agreement negotiations are characterised as “very near” completion.[27] The Budget’s tariff reductions on ~8,800 items and proposed India International Trade Organisation (INR 2,000 crore corpus) create negotiating space.

EU, UK, and EFTA agreements collectively provide preferential access to nearly half global GDP. Converting market access into market share requires competitive manufacturing capability—still work in progress.

2.4 Global Financial Conditions and Commodity Outlook

The global financial architecture provides both tailwind and headwind:

Federal Reserve: The Fed held rates at 3.50-3.75% at its January 2026 meeting—the seventh consecutive hold after cutting 175bp (basis points) from September 2024’s 5.25-5.50% peak.[22] Markets price two more cuts; JP Morgan and Jefferies project a hold through 2026.

Implications for India: The narrower rate differential supports INR stability but leaves FPI flows sensitive to Fed signalling—the \$18.4 billion FPI outflow in CY 2025 reflects this. The BoP swing (\$30 billion H1 deterioration) indicates sensitivity beyond actual rate moves.

Commodity Markets: Brent crude forecasts for 2026 range from \$55-62/barrel—the lowest since pre-pandemic—as non-OPEC production grows 3x faster than demand.[25][26] Each \$10/barrel decline reduces India’s import bill by approximately \$20-25 billion annually.

Precious Metals: Gold at \$4,500+/oz (42% rise in 2025) adds current account pressure; the new Electronic Gold Receipts (EGR) framework aims to redirect physical demand toward paper instruments.

Net Assessment: Lower oil provides INR 1.5-2 lakh crore import bill savings; the commodity mix is net favourable but vulnerable to Middle East disruption.

3. Macroeconomic Performance

3.1 Growth Trajectory and Sectoral Dynamics

India achieved 8.2% real GDP growth in Q2 FY26. Full-year FY26 at 6.4% represents moderation from FY25’s 8.2% but remains above India’s long-run average and most peer economies.

GVA Growth by Industry (RE= Real Estate)

Sector (% of GVA)	FY23-24	FY24-25	FY25-26	Comment
GVA at Basic Prices	8.6%	6.4%	7.3%	Recovery
Public Admin (15.3%)	8.8%	8.9%	9.9%	Election boost
Financial & RE (23.7%)	10.3%	7.2%	9.9%	Base recovery
Trade & Transport (17.4%)	7.5%	6.1%	7.5%	Normalisation
Mfg & Construction (25.3%)	11.4%	6.1%	6.6%	Needs acceleration
Agri & Mining (18.4%)	2.7%	4.4%	2.7%	Normal monsoon

The sectoral composition reveals important dynamics. Public administration (15.3% GVA share, 9.9% growth) reflects continued government expenditure leadership. Construction’s 10.3%

growth reflects the infrastructure push. Agriculture’s modest 3.8% against a 17.7% share indicates the productivity challenge—nearly half the workforce producing less than a fifth of output.

Services remain robust but skewed. IT exports contribute to the services surplus that offsets the merchandise trade deficit, though AI-driven delivery models are beginning to affect hiring—an early indicator of disruption risk (Section 6.5). The Global Capability Centre (GCC) phenomenon has accelerated to 1.9 million employees across 1,700+ centres.

3.2 GDP Components: Investment and Consumption Dynamics

GDP Expenditure Components

Component	FY 2024-25	FY 2025-26	Observation
GDP Growth (Real)	6.5%	7.4%	Strong recovery
Private Consumption	7.2%	7.0%	Steady, broad-based
Govt Consumption	2.3%	5.2%	↑ Election/stimulus
Investment (GFCF)	7.1%	7.8%	Modest improvement
Exports (G + S)	6.3%	6.4%	Resilient
Imports (G + S)	-3.7%	14.4%	Sharp reversal

Private consumption growth at 7.0% faces headwinds from rural income stress. Government consumption at 4.4% reflects fiscal consolidation discipline. Gross Fixed Capital Formation at 6.7% represents government capex leadership (quadrupled since FY20) but continued private investment hesitancy despite record corporate cash balances and low leverage.

The sharp import reversal—from -3.7% to +14.4%—warrants attention; import composition matters, as capital goods imports signal investment strength while consumer goods imports contribute less to production capability. Export growth at 5.6% is moderate. The widening goods trade deficit, partially offset by services surplus, creates the current account pressure discussed in Section 4.

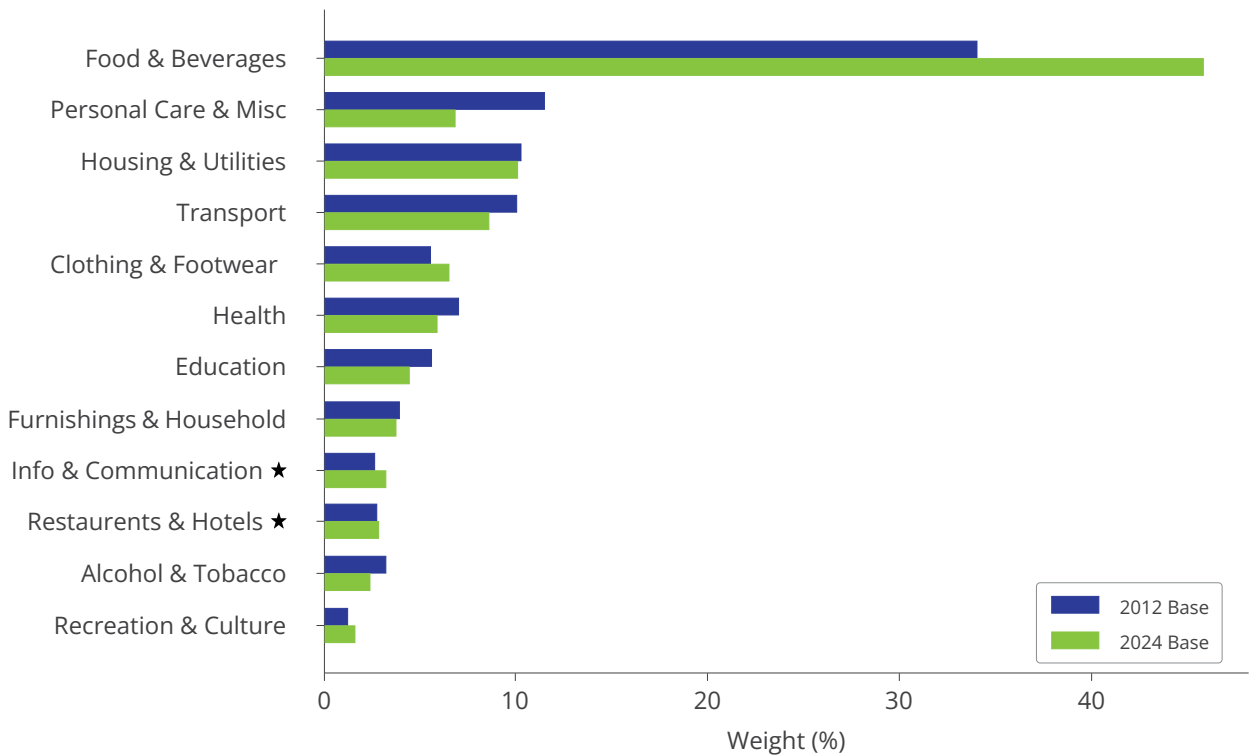
3.3 Inflation Dynamics and CPI Methodology Overhaul

CPI inflation moderated to a historic low of 1.7% during April-December 2025—the lowest since the current CPI series began in 2012.[5] Core inflation remained subdued. This “Goldilocks” outcome provides macroeconomic breathing room for structural reforms.

The CPI Methodology Overhaul—announced by MoSPI on January 29, 2026 and effective February 12, 2026—shifts the base to 2024 and adopts COICOP 2018 international classification, improving global comparability while reflecting contemporary consumption patterns.[17]

CPI Weight Comparison: 2012 vs 2024 Base Year

Full COICOP 2018 Classification (★ = New Category)



The most striking shift: food weight drops 9.11% points—from 45.86% to 36.75%—reflecting declining food share as incomes rise. New categories include Information & Communication (3.61%) and Restaurants & Hotels (3.35%). The expanded 358-item basket and e-commerce price collection modernise measurement for a digital economy.

Monetary Policy Implications: Lower food weight reduces headline volatility during price shocks—

tomato spike impact drops from ~0.3 to ~0.2pp. This enables more stable policy but may mask stress where food remains 50%+ of expenditure.

RBI's Flexible Inflation Targeting framework is due for renewal in March 2026. New CPI methodology combined with the Goldilocks moment creates conditions for a potentially lower inflation target—a structural shift in monetary policy architecture.

3.4 Statistical Methodology Modernisation

India's statistical infrastructure is undergoing its most comprehensive modernisation in over a decade. Three major revisions are scheduled:

Statistical Revision Timeline

Series	New Base Year	Release Date	Key Change
CPI	2024=100	February 12, 2026	COICOP 2018; e-commerce
GDP/National Accounts	2022-23	February 27, 2026	Digital economy; GST
IIP	2022-23	May 28, 2026	Green tech, EVs

This is the 8th GDP base year revision—the first since 2015—responding to the IMF's "C" rating on data adequacy.[20]

Official Position: CEA Nageswaran indicated the food weight reduction should not have a large impact.[18] MoSPI Secretary Garg stated GDP expectations should "not change significantly" with the new series.[19]

These statements apply primarily to growth rates and inflation levels rather than nominal GDP magnitudes. Higher nominal GDP = lower deficit ratio without actual improvement in fiscal position. A deficit of INR 15.7 lakh crore is the same borrowing requirement whether 4.4% or 4.1% of GDP. Material impacts include: cosmetic fiscal deficit-to-GDP improvement, lower apparent debt-to-GDP, reduced tax-to-GDP ratio, and 16th Finance Commission implications for Centre-State allocations 2026-31.

3.5 Cost of Capital: The Structural Constraint

The Survey's most ambitious claim (Box III.9): India's high cost of capital is structural. Over 1995–2025, India's weighted average long-term rates averaged 7.61%—far above Canada (3.13%) or Switzerland (1.04%). Economies with persistent current account deficits must import foreign savings, introducing a risk premium. A panel estimation confirms: 1% point CAD-to-GDP improvement is associated with 30–40bp decline in long-term rates.

Gross market borrowing of INR 17.20 lakh crore, combined with state borrowings of INR 5 trillion+, means public issuance approaching INR 22 lakh crore—crowding out private borrowers. Unless India generates current account surpluses through manufacturing exports, the sovereign yield curve remains elevated. The cost of capital is a structural feature, not a cyclical inconvenience.

3.6 Services Sector: Tourism as an Employment Engine

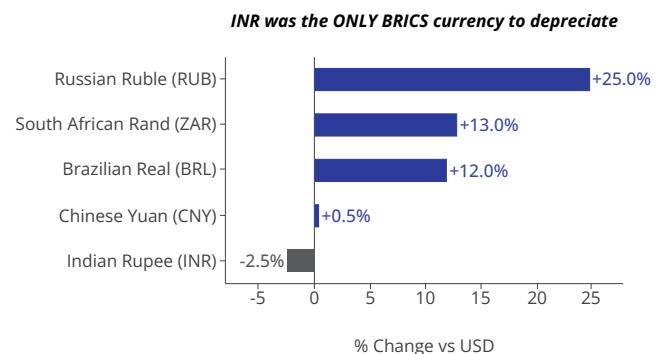
Tourism is an underexploited multiplier: 20.57 million international arrivals in 2024, contributing 5.22% of GDP and 8.46 crore jobs (~13.3% of employment), with foreign exchange earnings of \$35.0 billion. Yet India captures barely 1.5% of global traffic—the Budget's Urban Challenge Fund targeting tourism hubs represents only a beginning.

4. Currency and Balance of Payments

4.1 The BRICS Currency Anomaly

The rupee's Current Year (CY) 2025 performance presents a puzzle. Against the USD, INR depreciated 5.14%—from INR 85.64 to INR 90.95.[1] Against the euro, ~22% (INR 87.89 to INR 107.21),[2] compounded by euro appreciation versus the dollar.[4]

BRICS Currency Performance vs USD (Calendar Year 2025)



The BRICS Anomaly: INR was the ONLY BRICS currency to depreciate against the USD in CY 2025. The Russian Ruble appreciated 25%, South African rand 13.8%, Brazilian real 12.8%, and Chinese yuan 4.3%. The spread between the best performer (RUB) and INR is approximately 30% points—a gap that demands explanation.[3][1]

INR weakness persisted even as the USD softened globally.[16] If depreciation were dollar-driven, other EM (emerging market) currencies should have behaved similarly—indicating domestic factors were primary.

India-specific factors included: FPI outflows of \$18.4 billion in CY 2025[6] from US rate differentials; tariff announcements; and RBI's tolerance for gradual depreciation. The Survey's observation that "manufacturing exports remain the only proven route to lasting external strength"[5] takes on heightened relevance.

4.2 Balance of Payments Dynamics

Forex reserves on BoP basis swung from +\$23.8 billion in H1 FY25 (reserve accumulation) to -\$6.4 billion in H1 FY26 (reserve drawdown)—a swing of \$30.2 billion in a single year.[7] This is structural, not noise.

Net FDI collapsed from \$33 billion annual average (FY20-24) to ~\$1 billion in FY25—a 97% decline.[7] Foreign Private Equity/Venture Capital investors are monetising earlier investments; ~66% of recent IPO proceeds were Offer-for-Sale rather than fresh capital.[14]

DII purchases of INR 6.06 lakh crore prevented market disruption as FPIs exited. But domestic savings are effectively financing foreign exits—household savings flowing into mutual funds transferred to foreign investors monetising earlier positions. Capital quality has deteriorated even if market levels are maintained.

4.3 The Private Investment Buffer—A Paradox

The Survey's BoP Addendum offers a provocative observation: weak private investment has inadvertently prevented a full-blown BoP crisis.[5] Private capex requires capital goods imports requiring dollars; muted capex means muted dollar demand.

The Survey states: “If private corporate investment grows strongly, there will be a strong need for more foreign capital inflows.”[5] This creates a dilemma: investment revival could intensify external pressure when inflows are weak. Resolution requires FDI recovery, export competitiveness, or acceptance of moderate investment growth as the external-balance-preserving default.

4.4 Forex Reserves: Comfort with Caveats

Forex reserves at \$701.4 billion (January 2026) provide ~11 months of import cover—above the 3-4 month threshold.[15] India ranks among the five largest holders globally.

The caveat: reserves have been supplemented by RBI NDF intervention and dollar weakness valuation gains. On a flow basis, BoP deterioration suggests reserve accretion has weakened—adequate for crisis prevention but insufficient for investment-led growth's import financing needs.

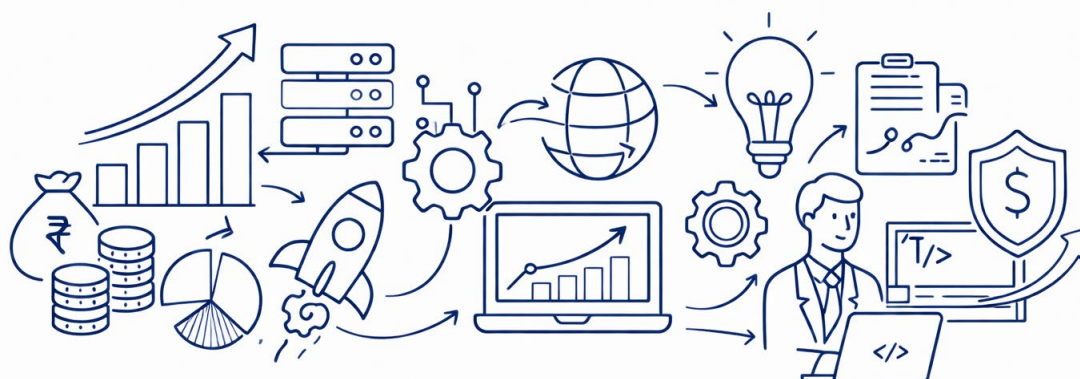
5. State Capacity and Deregulation

5.1 Deregulation: Reducing the Compliance Burden

The Task Force on Compliance Reduction represents the most systematic attempt to reduce India's regulatory burden. Over 5,300 compliance requirements have been reduced or eliminated across central and state levels—a meaningful start given the estimated 70,000+ compliances Indian businesses face.

The Jan Vishwas Act, 2023 decriminalised 183 offences across 42 Acts—converting criminal penalties to civil ones. Jan Vishwas 2.0 extends this to 100+ additional provisions.

The four labour codes—on Wages, Industrial Relations, Social Security, and Occupational Safety—were notified November 2025, consolidating 29 fragmented laws into a unified framework. Labour market reforms, if fully implemented with social security portability and simplified compliance, could address the formalisation deficit that keeps over 90% of India's workforce informal.



Deregulation Progress

Initiative	Status	Impact
Compliance Reduction	76% of 828 items	Business environment
Jan Vishwas Act	183 offences decriminalised	Reduced liability risk
Labour Code Implementation	Partial (state-level)	Flexibility pending
Land Digitisation	Uneven across states	Title transparency

The Budget responds: a new Income Tax Bill (reducing provisions from 800+ to ~500), an Investment Friendliness Index ranking states on ease of doing business, and digital infrastructure for compliance (expanding Aadhaar, UPI, and GST integration). The question remains whether these reforms achieve the "simplification dividend" or add new compliance layers atop unrepealed old ones.

5.2 Disinvestment: Underperformance and Reframing

FY26 marks the 5th consecutive year of missed disinvestment targets—a pattern raising questions about strategic commitment versus fiscal convenience.

Disinvestment Performance

Year	Target (INR crore)	Achievement	Ratio
FY 2021-22	1,75,000	13,627	7.8%
FY 2022-23	65,000	46,035	70.8%
FY 2023-24	51,000	33,121	64.9%
FY 2024-25 RE	50,000	33,000E	66%
FY 2025-26 BE	47,000	8,768 YTD	18.7%

The consistent underperformance—barring the exceptional LIC IPO year—suggests structural constraints: political economy challenges of selling state assets, weak market conditions, and tension between employment preservation and commercial efficiency. The Survey's reframing toward "asset monetisation" rather than ownership transfer acknowledges this reality, but fiscal credibility requires either meeting stated targets or transparently abandoning them.



6. Innovation Ecosystem and the R&D Challenge

India's innovation ecosystem presents a fundamental paradox: world-class engineers and demonstrated domain capability, yet aggregate R&D investment critically low at 0.64% of GDP—a gap between sectoral excellence and systemic capability.

6.1 The R&D Deficit: Magnitude and Structure

At 0.64% of GDP, India's gross expenditure on research and development (GERD) is not merely below the 2% aspiration but fundamentally inadequate for an economy seeking manufacturing self-reliance.[9]

R&D Investment Comparison

Country	GERD (% GDP)	Private Share	Researchers/M
India	0.64%	36.4%	262
China	2.4%	~77%	1,307
South Korea	4.5%	~80%	8,714
United States	3.5%	~73%	4,412
Israel	4.3%	~86%	8,250
Germany	3.1%	~68%	5,200

China invests nearly 4x India's ratio; South Korea 7x; Israel 6.7x. China's R&D exceeds \$400 billion versus India's ~\$20 billion. The trend gap is most concerning—China grew from 1.0% to 2.4% while India stagnated at 0.6-0.7% for two decades.

In advanced economies, private enterprise drives 70-80% of R&D. In India, government contributes 56%, private sector only 36.4%.[9] This creates a critical applied research gap.

6.2 Sectoral Variation in Innovation Investment

Pharmaceuticals demonstrate genuine global R&D capability—"pharmacy of the world" with 20% of global generics and demonstrated biologics capacity. IT services delivery is world-class, but product innovation remains Silicon Valley-driven; GCCs are gradually changing this.

Manufacturing R&D is the critical weakness. Capital goods, electronics, chemicals, advanced materials—where China built capability over three decades—remain areas of Indian import dependence. The "China Plus One" opportunity cannot be fully captured

without ecosystem depth: component availability, engineering capability, and process expertise.

6.3 The Talent Pipeline Paradox

India produces ~1.5 million engineering graduates annually yet has only 262 researchers per million versus South Korea's 8,714 or China's 1,307.[9] Talent flows to services, emigration, and non-research roles.

Brain drain continues at significant scale. Remittances (\$125 billion+) provide forex support but represent capability export.

Services absorption is rational—software engineering at INR 20-40 lakh outcompetes research at INR 6-10 lakh. The academic-industry disconnect compounds the problem: university research lacks commercial pathways, and incentive structures prioritise publications over patents.

6.4 Policy Gaps and Recommendations

Several policy levers remain underutilised or improperly calibrated:

R&D Tax Incentives: Section 35(2AB) uptake remains limited due to procedural complexity and audit uncertainty. Simplification and expanding eligible activities could shift corporate calculus toward innovation investment.

Patent Box Regime: India lacks the reduced tax rate on income from patented innovations used by UK, Netherlands, Singapore, and Ireland. With Indian talent frequently developing patentable innovations assigned to foreign entities for tax efficiency, a patent box could incentivise domestic IP retention.

Deep-Tech Venture Capital: The startup ecosystem is concentrated in consumer internet, fintech, and SaaS. Deep-tech ventures (hardware, semiconductors, biotechnology) require patient capital with longer cycles and higher failure rates. The Venture Capital ecosystem has limited appetite, creating a financing gap that government initiatives only partially address.

National Research Foundation (NRF): The proposed NRF (INR 50,000 crore corpus) aims to address research funding fragmentation and strengthen industry-academia linkages. Implementation will be key—past coordination attempts have often added bureaucracy without improving outcomes.

India cannot achieve strategic indispensability through protection alone. The Budget responds with the INR 20,000 crore RDI scheme (private-sector matching) and Biopharma SHAKTI. But a 1% point R&D increase requires ~INR 3.3 lakh crore annually—the Budget's allocation is a beginning.

6.5 AI Strategy: Opportunity and Disruption Risk

The Survey advocates sector-specific AI deployment rather than racing for frontier model development. Agriculture, healthcare, and education offer transformation potential with existing infrastructure.[28]

IndiaAI Mission's 10,000 GPU infrastructure could create competitive AI applications without frontier capability. The Budget allocates INR 20,000 crore to IndiaAI Mission and Centres of Excellence.

The AI-OS initiative—government participating as “monetary shareholder”—creates shared AI infrastructure reducing barriers for smaller developers.

The deployment opportunity coexists with disruption risk. India's IT sector employs ~5 million directly and 15 million indirectly. Gartner projects AI will handle 80% of routine software testing by 2028. India's IT advantage—labour cost arbitrage for codifiable tasks—is precisely what AI automates most effectively.

Services exports have outpaced goods at 9.4% CAGR versus 6.4% for merchandise since 2020. If AI compresses services growth while manufacturing remains insufficient, India faces a structural BoP challenge. The IMF warned at Davos 2026: “If services also become capital-intensive in India, then there is going to be a problem with enough job creation.”[31]

6.6 Semiconductor Mission: Progress and Challenges

Six semiconductor fabrication facilities have been approved with aggregate investment of INR 1.52 lakh crore, including the Tata-PSMC 28nm fab (operational target: 2027), CG-OSAT testing/packaging facilities, and Kaynes Technology's compound semiconductor unit.[13]

These projects could position India in the global semiconductor supply chain, though at mature nodes (28nm+) while leading-edge (3-5nm) remains in Taiwan and South Korea. The strategic value is supply chain diversification rather than technological leadership.

The Budget escalates: ISM 2.0 at INR 1 lakh crore, ECMS at INR 22,919 crore—the largest industrial policy commitment ever. The risk: 5-7 years for facilities means import dependence persists through peak geopolitical volatility.

7. Strategic Resilience Framework

The Survey proposes a tiered approach to strategic indigenisation—distinguishing between sectors requiring protection for national security versus those where market-driven development is more appropriate:

Tier I: Critical (Immediate Priority—Strategic Imperative)

- ◆ Active Pharmaceutical Ingredients (APIs): 65%+ import dependence creates healthcare security vulnerability

- ◆ Fertiliser inputs: Agricultural productivity and food security depend on assured supply
- ◆ Power electronics: Grid stability and renewable integration require reliable domestic capability
- ◆ Battery cells: Energy transition for transport and storage cannot depend on single-country sourcing
- ◆ Semiconductor manufacturing: Supply chain security for electronics across defence, telecom, automotive

Tier II: Economically Feasible (Medium-Term—Market-Driven with Support)

- ◆ Industrial machinery: Manufacturing depth requires machine tool capability
- ◆ EV drivetrains: Motors, controllers, and power electronics for mobility transition
- ◆ Medical devices: Healthcare autonomy and export potential
- ◆ Specialty chemicals: Intermediate goods for pharmaceuticals, agrochemicals, textiles

The Survey's Decision Framework provides guidance for when protection is justified:

Protection IS justified when: (a) domestic production is feasible but impeded by coordination failures or first-mover disadvantages; (b) protection is explicitly temporary with sunset provisions; (c) conditional on export performance; (d) strategic security considerations override pure economic calculus.

Protection is INAPPROPRIATE when: (a) India is already cost-competitive; (b) inputs are general-purpose intermediates whose cost cascades through value chains; (c) protection shields poor-quality producers rather than enabling catch-up; (d) no credible path to export competitiveness exists.

The PLI schemes represent this framework in operation—production-linked, time-bound, with export obligations. Results are mixed: mobile phone assembly has scaled impressively (Apple's India production exceeding \$14 billion in FY25), but domestic value addition remains limited; semiconductor PLI is approved but years from production; and textile PLI uptake has been slower

than anticipated. The 5-year window creates urgency—either competitive capability emerges or India risks permanent subsidisation. Critical mineral supply chains remain exposed; the Budget's Rare Earth Corridors scheme across four mineral-rich states addresses this but faces geological and processing challenges.

8. Areas of Concern in Achieving Swayambhu Bharat

The Budget addresses strategic vulnerabilities: INR 10,000 crore Nuclear Energy Mission; Rare Earth Corridors; Biopharma SHAKTI targeting API self-sufficiency; ISM 2.0 tackling semiconductor dependency. The test is execution velocity.

Honest assessment requires acknowledging structural gaps that could impede the Swayambhu Bharat vision. These concerns are interconnected—each amplifying the others in ways that demand coordinated response.

8.1 The Confidence-Capability Nexus

The central challenge is self-reinforcing. Private investment hesitancy stems from demand uncertainty—corporate India holds record cash while capacity utilisation stays below expansion thresholds. Without investment, manufacturing gaps persist; without competitive products, exports disappoint; without export earnings, BoP pressure builds. Breaking this requires simultaneous action on demand, capability, and confidence.

8.2 The FDI Quality Deterioration

Net FDI collapse—from \$33 billion average to ~\$1 billion—signals India functions increasingly as an exit destination rather than investment destination. Gross inflows remain healthy, but composition has shifted toward financial flows rather than productive investment. Strategic indispensability requires attracting the very capital currently departing.

8.3 Innovation Infrastructure Gap

The R&D deficit is not merely a spending shortfall but a structural impediment to disciplined Swadeshi. Protection without innovation creates dependency on imported technology even when products are

assembled domestically. India cannot achieve strategic indispensability through tariff walls alone.

8.4 Implementation Asymmetry Across States

Federal India means national policy meets state-level execution. Punjab at 107% committed expenditure, DISCOM losses at INR 6.47 trillion—states under fiscal stress cannot co-invest in infrastructure complementing central policy. The 16th Finance Commission must address this.

8.5 Execution Timeline Vulnerability

Several critical initiatives—semiconductor fabs, PLI disbursements, FTA utilisation—have multi-year execution horizons that leave near-term vulnerabilities unaddressed.

CFR assesses 28 of 30 conflict scenarios carry >50% probability in 2026.[24] The gap between when strategic autonomy is needed and when current investments deliver operational capacity represents the most acute vulnerability in the Swayambhu framework.

8.6 The Urban Infrastructure Deficit

India's cities underperform relative to their economic potential—none functions as a global node comparable to Shanghai or Singapore.[29] Research suggests doubling city size should boost productivity by 12%, but this agglomeration dividend remains largely unrealised.

Density manifests as congestion rather than productivity. Metropolitan governance is fragmented; urban local bodies lack fiscal autonomy.

Manufacturing at scale requires functional cities. FTA market access cannot translate into employment if cities cannot absorb workforce expansion. The Budget's INR 10,000 crore Urban Challenge Fund and INR 5,000 crore City Economic Regions address this.

8.7 The Employment Quality Gap

Employment elasticity declined from 0.38 in the 1990s to ~0.11.[30] At Davos, the IMF observed only ~30% of India's growth comes from labour.[31] Over 90% of workforce remains informal, manufacturing employs 11.4% after a decade of Make in India.

Female LFPR doubled from 23.3% to 41.7% since 2017-18, but through rural unpaid family work.

Only 4.9% of youth have formal vocational training and 56% of graduates are deemed employable. AI now threatens IT services—India's primary formal employment engine. The four labour codes (November 2025) represent the most significant institutional response in decades, but India's demographic dividend peaks around 2030—whether 10-12 million annual workforce entrants become a consumption engine or fiscal liability depends on reform delivering formal employment at unprecedented pace.

The Budget responds with Employment-Linked Incentive schemes, an AI impact panel, and university townships near industrial corridors. The INR 1 lakh crore tax relief operates as indirect employment measure—demand visibility is the precondition for private capex creating formal jobs. Necessary, but 90% informality after three decades of liberalisation requires greater scale.

9. Focus Areas for 2026-27: Bridging Aspiration and Achievement

Identifying concerns is necessary but insufficient. This section outlines actionable focus areas where policy attention in FY27 can most directly bridge the aspiration-achievement gap, mapped to Budget delivery mechanisms.

9.1 Immediate Priorities Identified by the Economic Survey, and FY27 Budget's Delivery

Demand Revival: The Survey identified demand visibility as the binding constraint on private capex. [5] The Budget's INR 1 lakh crore tax relief puts money in middle-class hands to generate demand signals—~INR 8,000-12,000/month for the target cohort, meaningful for consumption but unclear as investment catalyst.

US BTA Conclusion: With negotiations "very near,"[27] the Budget creates institutional infrastructure (India International Trade Organisation, INR 2,000 crore corpus) and tariff negotiating space. Conclusion would add the US to the EU-UK-EFTA architecture, providing preferential access to the world's three largest developed economy markets.

R&D Operationalisation: The INR 20,000 crore RDI scheme with private-sector matching, Anusandhan NRF, Biopharma SHAKTI, and Fund of Funds begin bridging the public R&D gap.

9.2 Near-Term Execution (FY27 Implementation)

Semiconductor Milestones: Quarterly reporting on 6 facilities. ISM 2.0's INR 1 lakh crore requires rapid operationalisation.

PLI Disbursement Acceleration: Review scheme-by-scheme performance against targets. Recalibrate where uptake is weak (textiles) and scale where it's strong (electronics, pharma).

FTA Utilisation Support: Dedicated SME assistance for preferential tariff access—documentation, rules of origin, quality certification. Market access is meaningless without utilisation capability.

Carbon Market Credibility: CCTS covering 740 entities needs transparent price discovery and EU recognition for CBAM deductibility.

DISCOM Reform: FY25 profit is fragile. Structural solutions require tariff rationalisation and smart metering beyond individual fiscal years.

9.3 Strategic Foundation (Multi-Year but Initiation Required)

Manufacturing Skills: Labour codes, ITI modernisation, and university townships must connect education to employment demand.

Agricultural Productivity: Mechanisation, storage infrastructure, export facilitation. Dhan-Dhanya Yojana targets 100 districts.

State Fiscal Discipline: 16th Finance Commission with conditional transfers. States with >90% committed expenditure need restructuring support.

Each focus area connects to the Swayambhu vision: self-manifested capability requiring Kriya (action) over Sankalpa (resolution).

Concluding Observations

India stands at an inflection point. Macroeconomic fundamentals are genuinely strong: 7.4% growth, 1.7% inflation, 4.4% fiscal deficit, BBB credit upgrade. FTA architecture provides access to nearly half the global economy. These achievements amid 28 of 30 conflict scenarios exceeding 50% probability make the Swayambhu vision urgent.

Yet structural gaps persist: private investment remains hesitant despite government capex quadrupling, employment growth is capital-intensive with 90%+ informality, net FDI has collapsed, R&D at 0.64% of GDP is inadequate, state fiscal fragility creates implementation asymmetry, and critical import dependence contradicts self-reliance in the near term.

The Survey's core insight—"manufacturing exports remain the only proven route to lasting external strength"—must guide policy prioritisation. [5] Services exports cannot substitute for the employment intensity, technology absorption, and BoP stability that manufacturing provides. FTAs provide market access; capturing it requires competitive manufacturing capability.

As India positions from resilience to strategic indispensability, the path requires Kriya (action) not merely Sankalpa (resolution)—Śreya (enduring good) over Preya (fleeting gratification). The structural reforms documented here are difficult but essential for genuine self-reliance.

Swayambhu Bharat is achievable, but the gaps between protection and competitiveness, between Kriya and Sankalpa, must be closed with urgency matching ambition. The Union Budget 2026-27 begins this bridging—INR 20,000 crore RDI scheme, new Income Tax Bill, semiconductor mission at INR 1 lakh crore, INR 1 lakh crore income tax relief—but whether sufficient depends on execution velocity. The distance between aspiration and achievement will be measured not in policy announcements but in outcomes: factories built, jobs formalised, exports diversified, technology indigenised.

ENDNOTES

All data sources with in-text citation references [#]

- [1] Visual Capitalist. (2025, January). BRICS currency performance analysis 2025.
- [2] European Central Bank. (2025). Euro/INR exchange rate data series.
- [3] Reserve Bank of India. (2025, December). BRICS currency cross-rates analysis.
- [4] MUFG Research. (2026, January). 2026 Annual Foreign Exchange Outlook.
- [5] Ministry of Finance. (2026, January 29). Economic Survey 2025-26. Government of India.
- [6] NSDL/CDSL. (2025). Foreign Portfolio Investment Data, Calendar Year 2025.
- [7] Reserve Bank of India. (2026). Balance of Payments Data, H1 FY26.
- [8] Reserve Bank of India. (2025). Annual Report 2024-25.
- [9] Department of Science and Technology. (2025). R&D Statistics 2024-25; UNESCO. (2025). Global R&D Database.
- [10] European Commission. (2026, January 27). EU-India FTA Conclusion Announcement.
- [11] UK Government. (2025, July 24). India-UK Comprehensive Economic Trade Agreement.
- [12] EFTA Secretariat. (2025). India-EFTA Trade and Economic Partnership Agreement.
- [13] India Semiconductor Mission. (2025). Project Approvals and Investment Summary.
- [14] Securities and Exchange Board of India. (2025). Indian Securities Market Review 2025.
- [15] Reserve Bank of India. (2026, January 16). Weekly Statistical Supplement.
- [16] CNBC. (2025, December 23). Asia's Worst-Performing Currency Set for Rocky 2026.
- [17] Ministry of Statistics and Programme Implementation. (2026, January 29). Report of the Expert Group on Comprehensive Updation of Consumer Price Index (CPI). Government of India.
- [18] Moneycontrol/TradingView. (2026, January 30). Interview with CEA V. Anantha Nageswaran post-Economic Survey.
- [19] Daily Pioneer. (2025, December). Pre-release Consultative Workshop on CPI, GDP and IIP Revision; MoSPI Secretary Saurabh Garg Statement.
- [20] International Monetary Fund. (2025). IMF Country Report No. 25/314: India Article IV Consultation—Staff Report.
- [21] SBI Research. (2026, January). CPI Base Year Revision: Impact Assessment on Headline Inflation Measurement.
- [22] Federal Reserve. (2026, January 28). FOMC Statement and Press Release.
- [23] Eurasia Group. (2026, January). Top Risks 2026.
- [24] Council on Foreign Relations. (2026, January). Preventive Priorities Survey 2026.
- [25] World Bank. (2025, October). Commodity Markets Outlook: Lower for Longer.
- [26] JP Morgan Research. (2026, January). Global Commodities Outlook 2026.
- [27] US Trade Representative. (2026, January). US-India Trade Agreement Negotiation Status.
- [28] Economic Survey 2025-26, Chapter 14: Evolution of the AI Ecosystem in India. The Survey dedicates an entire chapter to AI ecosystem development, emphasising both opportunity and disruption risk to India's IT services sector.
- [29] Economic Survey 2025-26, Chapter 15: Urbanisation: Making India's Cities Work for Its Citizens. The Survey treats urbanisation as one of three special essays alongside AI and state capacity, framing cities as economic infrastructure.
- [30] Employment elasticity estimates derived from ILO India Employment Report 2024; Kannan, K.P. & Raveendran, G. (2019), "From Jobless to Job-loss Growth," Economic & Political Weekly; ORF Issue Brief No. 673 (2023), "Employment Elasticity in India." The decline from 0.38 (1990s) to 0.11 (2010s) is corroborated across multiple econometric specifications.
- [31] Gopinath, G. (2026, January). Remarks at World Economic Forum, Davos 2026. IMF First Deputy Managing Director's session on India's growth trajectory. "Only about 30% of India's growth has come from labour"; "BPO is going to be impacted by AI... If services also become capital-intensive in India, then there is going to be a problem with enough job creation."

APPENDICES

Appendix A: Key Indicators (3-Year Comparison)

Indicator	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27 (BE)
GDP Growth (Real)	8.6%	6.5%	7.4%	~6.3–6.5%
GDP Growth (Nominal)	10.3%	9.8%	8.0%	10.0%
CPI Inflation	5.4%	4.9%	1.7%*	~4.0%
Fiscal Deficit (Centre)	5.5%	4.8%	4.4%	4.3%
CAD (% GDP)	-0.7%	-1.2%	-1.0% to -1.2% (E)	-1.0% to -1.2% (E)
GFCF (% GDP)	33.5%	33.7%	33.8%	~34% (E)
Merch Exports (\$B)	437	437	~450E	~480E
Services Exports (\$B)	339	363	~375E	~400E
Forex Reserves (\$B)	642.5	654.0	701.4	—
Gross NPA (%)	3.2%	2.8%	2.2%	—

*April-December 2025; E=Estimate

Appendix B: Key Statistics from Analysis

Metric	Value	Source
Net FDI Collapse	\$33B → \$1B (97%↓)	[7]
Forex Reserve Swing (H1)	\$30.2B YoY deterioration	[7]
Private Capex Intent FY26	-25.5% decline	[7]
Nifty500 Cash Holdings	INR 14.3 lakh crore (+35% in 2 yrs)	[11]
Capacity Utilisation	74.1% (below 80% threshold)	[8]
Top 10% Income Share	58%	[12]
Agriculture Share (Emp/GDP)	46% / 17%	[5]
R&D/GDP (India vs China)	0.64% vs 2.4%	[9]
Researchers per Million	262 vs Korea 8,714	[9]
FTA Export Coverage	~50% of merchandise	[18]
Deregulation Implementation	76% of 828 items	[5]
State Debt/GDP (Avg)	27.5%	[5]
DISCOM Profit (First Ever)	INR 2,701 crore (FY25)	[17]
Tourism Arrivals Gap	India 20.57M vs Thailand 33M	[16]
10-Yr G-Sec Yield	6.7% (vs Indonesia 6.3%)	
Fed Rate (Jan 2026)	3.50-3.75%	[22]
Brent Crude Forecast 2026	\$55-62/bbl	[25][26]
CFR Conflict Scenarios >50%	28 of 30	[24]
30-Year Avg Long-Term Rate	India 7.61% vs Canada 3.13%	

Direct Taxes

Amendments to Tax Rates

A) Proposed Changes

I) The Bill proposes to reduce the tax rate of MAT on book profits from 15% to 14%, as follows:

Description	Proposed Rate (%)		
	Range of Income		
	Exceeding INR 10 crore ⁽⁷⁾	INR 1 crore to INR 10 crore ⁽⁸⁾	Less than INR 1 crore ⁽⁹⁾
A) Domestic Company	16.307	15.579	14.56
B) Foreign Company	15.288	14.851	14.56

B) Tax rates for class of persons where no changes are proposed

I) Income-tax slab rates for Individual / HUF / AOP (other than a co-operative society) / BOI / AJP (subject to certain conditions) - Section 115BAC

Income (INR)	Rate (%)
0 – 4,00,000	Nil
4,00,001 – 8,00,000	5
8,00,001 – 12,00,000	10
12,00,001 – 16,00,000	15
16,00,001 – 20,00,000	20
20,00,001 – 24,00,000	25
Above 24,00,000	30

A resident individual whose total income does not exceed INR 12,00,000 can claim tax rebate under section 156 of ITA 2025 (section 87A of ITA 1961) on the total income [excluding income taxable at special rate (such as, capital gains)]. Tax rebate is lower of the amount of income-tax amount and INR 60,000.

Where the total income includes any income by way of dividend or income under the provisions of sections 196, 197 and 198 of ITA 2025 (sections 111A, 112 and 112A of ITA 1961), the rate of surcharge on the income-tax in respect of that part of income shall not exceed 15%.

II) For Individuals, HUF, AOP and BOI

Income-tax slab and the applicable rates, under the old regime

Income (INR)	Rate (%) ^{(1) (3) (4) (5) (13)}
0 – 2,50,000 ⁽²⁾	Nil
2,50,001 – 5,00,000	5
5,00,001 – 10,00,000	20
10,00,001 and above	30

A resident individual whose taxable income does not exceed INR 5,00,000 can claim tax rebate under section 156 of ITA 2025 (section 87A of ITA 1961). Tax rebate is lower of the amount of income-tax amount and INR 12,500.

III) Tax Rates applicable to companies for Total Income exceeding INR 10 crore

Description	Rate (%) ⁽⁷⁾
A) Domestic Company	
Regular Tax (i.e. for companies having turnover more than INR 400 crore)	34.944
Where the total turnover or gross receipts in the TY 2024-25 does not exceed INR 400 crore / section 199 of ITA 2025 (section 115BA of ITA 1961)	29.12
B) Foreign Company – Regular Tax	38.22

IV) Tax Rates applicable to companies for Total Income less than INR 10 crore

Description	Rate (%)	
	Range of Income	
	INR 1 crore to INR 10 crore ⁽⁸⁾	Less than INR 1 crore ⁽⁹⁾
A) Domestic Company		
Regular Tax (i.e. for companies having turnover more than INR 400 crore)	33.384	31.200
Where the total turnover or gross receipts in the TY 2024-25 does not exceed INR 400 crore / section 199 of ITA 2025 (section 115BA of ITA 1961)	27.820	26.000
B) Foreign Company – Regular Tax	37.128	36.40

V) Optional Concessional tax rates for Domestic companies – Sections 200 & 201 of ITA 2025 (Sections 115BAA and 115BAB of ITA 1961)

Description	Rate (%) ⁽¹⁰⁾
Companies(not availing deductions/ exemptions as prescribed therein) (section 200 of ITA 2025)	25.168
Manufacturing companies set up and registered on or after October 1, 2019 but before March 31, 2024 (without claiming any deductions/ exemptions) section 201 of ITA 2025)	17.160
Companies in the business of generation of electricity set up and registered on or after October 1, 2019 but before March 31, 2024 (without claiming any deductions / exemptions) (section 201 of ITA 2025)	17.160

VI) Tax Rates applicable to Firm /LLP/Local Authority for Total Income exceeding INR 1 crore

Description	Rate (%) ⁽¹¹⁾
Regular Tax	34.944
AMT	21.549

If a person, other than a company, being a unit located in IFSC derives income solely in convertible foreign exchange, the income tax would be payable @ 10.483%, instead @ 21.549% under AMT.

VII) Tax Rates applicable to Firm /LLP/Local Authority for Total Income Less than INR 1 crore

Description	Rate (%) ⁽⁹⁾
Regular Tax	31.200
AMT	19.240

If a person, other than a company, being a unit located in IFSC derives income solely in convertible foreign exchange, the income tax would be payable @ 9.36% instead @ 19.24% under AMT.

VIII) Optional and Concessional tax rate for Resident co-operative societies (subject to certain conditions)

Income (INR)	Regular Tax Rate (%) ⁽¹²⁾
Up to 10,000	10
10,001 – 20,000	20
Above 20,000	30
AMT	15

Concessional tax rate

A co-operative society resident in India has the option to pay tax @ 22% as per the provisions of section 203 of ITA 2025 (section 115BAD of ITA 1961), subject to fulfilment of certain conditions.

Reference notes:

- (1) HEC shall be levied @4% on income-tax, including surcharge wherever applicable.
- (2) In case of individuals who have not opted for the lower rate in section 202 of ITA 2025 (section 115BAC of ITA 1961), the basic exemption limit is INR 2,50,000 for every individual below the age of 60 years, INR 3,00,000 in the case of resident individuals of the age of 60 years or more and INR 5,00,000 in the case of resident individuals of the age 80 years and above.
- (3) Surcharge @10% of income-tax is applicable in the case of a person having a total income (including dividend and income under the provisions of sections 196, 197 and 198 of ITA 2025 (sections 111A, 112 and 112A of ITA 1961)) exceeding INR 50 lakh, but not exceeding INR 1 crore and 15% in the case of a person having a total income (including dividend and income under the provisions of sections 196, 197 and 198 of ITA 2025 (sections 111A, 112 and 112A of ITA 1961)) exceeding INR 1 crore, but not exceeding INR 2 crore. Surcharge rate shall not exceed 15% for AOP, where the members are only companies.
- (4) Surcharge @25% of such income-tax is applicable in the case of a person having a total income (excluding dividend and income under the provisions of sections 196, 197 and 198 of ITA 2025 (sections 111A, 112 and 112A of ITA 1961)) exceeding INR 2 crore, but not exceeding INR 5 crore and 37% in the case of a person having a total income (excluding dividend and income under the provisions of sections 196, 197 and 198 of ITA 2025 (sections 111A, 112 and 112A of ITA 1961)) exceeding INR 5 crore.
- (5) Surcharge @15% of income-tax for person having a total income (including dividend and income under the provisions of sections 196, 197 and 198 of ITA 2025 (sections 111A, 112 and 112A of ITA 1961)) exceeding INR 2 crore but is not covered under Note (4) above.
- (6) Surcharge for the taxpayer under new regime will be same as applicable to the slab rates for Individuals and HUF under old regime, except where the income exceeds INR 5 crore, the surcharge shall be restricted to 25%.
- (7) Inclusive of surcharge of 12% (5% for foreign company) and HEC of 4%.
- (8) Inclusive of surcharge of 7% (2% for foreign company) and HEC of 4%.
- (9) Inclusive of HEC of 4%.
- (10) Inclusive of surcharge of 10% and HEC of 4%.
- (11) Inclusive of surcharge of 12% and HEC of 4%.
- (12) Exclusive of surcharge of 7% in case of income exceeding INR 1 crore but not exceeding INR 10 crore and 12% in case of income exceeding INR 10 crore and HEC of 4% (except in case of resident co-operative society opting under section 203 of ITA 2025 (section 115BAD of ITA 1961), surcharge would be @ 10% of such income tax).
- (13) Where the total income includes any income by way of dividend or income under sections 196, 197 and 198 of ITA 2025 (sections 111A, 112 and 112A of ITA 1961), the rate of surcharge on the amount of income-tax computed in respect of that part of income shall not exceed 15%.

[Clauses 2, 3 and the First Schedule]

Streamlining and broad-basing of Safe Harbour regime

The Finance Minister, in her Budget speech, announced long awaited measures to streamline safe harbour regime to make it more inclusive and attractive which hitherto has seen a tepid response. All IT and IT enabled services, viz, software development services, IT enabled services, knowledge process outsourcing, contract R&D services related to software development, have been consolidated into a single, unified category termed "Information Technology Services," thereby simplifying classification and easing compliance requirements.

A standard safe harbour margin of 15.5% has been introduced, replacing the earlier regime of multiple service specific margins (ranging from 17% to 24%) which will go a long way in enhancing consistency and predictability. Further, the scope of the safe harbour regime has also been significantly expanded by increasing the turnover threshold from INR 300 crore to INR 2,000 crore, enabling a substantially larger pool of taxpayers to avail its benefits.

Taxpayers are also permitted to opt for the safe harbour regime for a continuous period of five years, at their discretion, providing long term certainty in transfer pricing positions. In addition, the approval process for safe harbour applications is proposed to be streamlined through an automated, rule based mechanism, which is expected to reduce administrative burden and processing time.

Further a safe harbour rate of 15% on cost is also proposed for taxpayers which provide datacentre services to its AEs.

Expeditious conclusion of APA for IT services related taxpayer

The Finance Minister, in her Budget speech announced the fast-tracking of the Advance Pricing Agreement (APA) process for IT services companies. The Government of India will introduce enabling rules that prescribe a timeline of two years for the conclusion of APAs, with a further extension of six months available only at the request of the taxpayer. This initiative is a positive step towards strengthening India's position as a global hub for service delivery centres.

Extension of facility of filing modified return of income to the AE of the Indian taxpayer entering APA with the CBDT

Currently, only the taxpayer entering an APA is permitted to file a modified return of income, while associated enterprises impacted by the APA are unable to modify their returns or claim refunds.

To correct this anomaly, it is proposed to amend section 169 of ITA 2025 (section 92CD of ITA 1961) to provide that where income is revised pursuant to an APA, AE be allowed to file a return or modified return in accordance with the APA within three months from the date of entering into the agreement.

This proposal will apply to APAs entered into on or after April 1, 2026 and will be effective from FY 2026-27 onwards.

[Clause 45]

Clarifying the time limit mentioned in section 153 of ITA 1961 r.w. section 144C of ITA 1961

There have been significant debates and divergent judicial interpretations concerning the timelines for completion of assessments in cases where the assessee is eligible to file objections before the (DRP) under section 144C of ITA 1961 (section 275 of ITA 2025). Recently, the Hon'ble Supreme Court, in the case of *Shelf Drilling Shelf Ron Tappmeyer Limited*, rendered a split verdict on this issue which further necessitated the need for legislative clarity.

With a view to removing ambiguity and providing certainty, the Bill proposes to clarify the applicable timelines through amendments to section 153 of ITA 1961. A corresponding amendment is also proposed in section 286 of ITA 2025.

Accordingly, it proposed to insert sub-section (10) in section 153 of ITA 1961 which provides that notwithstanding anything contained in any judgment, order, or decree of any court, the timelines prescribed in section 153 shall govern the assessment proceedings up to the stage of issuance of the draft assessment order, while the timelines provided under section 144C shall apply to the finalisation of assessments. Similar provision is also proposed to be inserted in section 153B of ITA 1961 and section 286 of ITA 2025. These provisions shall apply notwithstanding the overall time limits specified under sections 153 and 153B. Similar clarificatory amendment is also proposed in section 144C of ITA 1961.

The clarification under ITA 1961 shall take effect retrospectively from April 1, 2009 in respect of section 153 and from October 1, 2009 in respect of section 153B. The corresponding amendment under ITA 2025 shall come into force with effect from April 1, 2026.

[Clauses 7, 9, 10, 61, 63]

Clarification on method of computing 60 days for passing the order by the TPO

Currently, the provision for specifying the timeline for passing the order by the TPO states that TPO is required to pass an order before 60 days prior to the date on which period of limitation under section 153/153B of ITA 1961 for making the order of assessment expires.

There has been considerable litigation in courts as to how the period of sixty days referred in section 92CA(3A) of ITA 1961 is required to be computed. The courts have invalidated the assessments as time barred holding that period of sixty days does not include the date of limitation. The Bill proposes to clarify the timeline of passing the order by the TPO by inserting sub-section (3AA) in section 92CA of ITA 1961. As per the proposed amendment, the timeline for passing the order by the TPO has been proposed to be:

- ◆ where the period of limitation expires on 31st of March of any year (not being a leap year), the order under sub-section (3) may be made up to the 30th of January of that year;
- ◆ where the period of limitation expires on 31st of March of any year (being a leap year), the order under sub-section (3) may be made up to the 31st of January of that year;
- ◆ where the period of limitation expires on 31st of December of any year, the order under sub-section (3) may be made up to the 1st of November of that year.

The amendment in ITA 1961 shall come into force with retrospective effect from June 1, 2007. Similar amendment has also been proposed in ITA 2025 effective from April 1, 2026.

[Clauses 7, 9, 10, 61, 63]

Conversion of penalty for non-filing of Form 3CEB to fee

Currently, section 271BA of ITA 1961 (section 447 of ITA 2025) provides for a penalty of INR 1,00,000 for non filing of Form 3CEB within the due date. With a view to avoid litigation, the above stated penalty has been converted to a graded fee of INR 50,000 for delay up to one month and INR 1,00,000 for delay beyond one month under section 428 of ITA 2025.

These amendments will take effect from April 1, 2026 and shall apply for TY 2026-27 onwards.

Extension of period of deduction for IFSC units and rationalization of tax rates

Currently, section 147 of ITA 2025 (section 80LA of ITA 1961) provides for deduction of 100% of specified income of units in IFSC for ten consecutive years out of fifteen years and ten consecutive years for OBUs.

It is proposed to extend the duration of deduction for IFSC units from the existing ten year out of fifteen years, to twenty consecutive years out of twenty-five years. Similarly, it is also proposed to extend the deduction for OBUs to twenty consecutive years.

Further, it is also proposed to substitute section 218 of ITA 2025 with new section 218 to provide that business income of the IFSC units post tax holiday period will be restricted to 15%.

These amendments will take effect from April 1, 2026 and shall apply for TY 2026-27 onwards.

[Clauses 38 and 51]

Exemptions on incomes earned by Non-residents, Foreign companies, etc.

Income arising from providing capital equipment, etc. to an electronic goods manufacturer, located in a custom bonded area (Sr. no. 13A)

The existing provisions of section 11 r.w. Schedule IV of ITA 2025 specify the eligible incomes, which are exempt from tax for the eligible non-residents, foreign companies, etc.

To promote manufacturing of electronic goods by a contract manufacturer, it is proposed to amend Schedule IV to provide exemption to a foreign company for a period upto TY 2030-31, on any income arising on providing capital goods, equipment or tooling to a specified contract manufacturer, being a resident company, who is located in a custom bonded area (i.e. warehouse referred to in section 65 of the Customs Act, 1962) and produces electronic goods on behalf of such foreign company, for a consideration.

Income from rendering services by a non-resident, under a notified Scheme in India (Sr. no. 13B)

It is also proposed to provide exemption to income which accrues or arises outside India and is not deemed to accrue or arise in India, to a non-resident individual (visiting India for rendering certain services in connection with any notified Scheme of the Central Government), for five consecutive TYs commencing from the first TY during which he visits India and fulfils certain prescribed conditions.

Income from procuring data centre services from a specified data centre (Sr. no. 13C)

To attract investments in Indian data centres and promote artificial intelligence data centre framework in India, it is proposed to provide exemption on any income earned by the foreign company, by way of procuring data centre services from a specified data centre, for a period upto TY ending March 31, 2047. For this purpose, the foreign company must meet following conditions:

- ◆ Foreign company should be notified by the Central Government
- ◆ Foreign company should not own or operate any of the physical infrastructure or any resources of the specified data centre
- ◆ All sales by such foreign company to users located in India, are made through a reseller entity, being an Indian company
- ◆ Foreign company maintains and furnishes such information in such form and manner, as may be prescribed.

The expressions 'data centre', 'data centre services' and 'specified data centre' are defined therein.

These amendments are proposed to take effect from TY 2026-27.

[Clause 109]

Deduction of expenditure on prospecting of critical minerals

The existing provisions of section 51 of ITA 2025 (section 35E of ITA 1961) allow a deduction of expenditure incurred on prospecting or extraction or production of the minerals mentioned in Part A and Part B of the Schedule XII of ITA 2025, on deferred basis, over a period of 10 years from the year of commercial production.

It is proposed to include Glauconite, Graphite, Beryllium, Indium, Lithium, Niobium, Potash, Rhenium and Tantalum bearing minerals in the said Schedule XII, thereby making related prospecting and exploration expenditure eligible for deduction as per section 51 of ITA 2025.

This amendment is proposed to take effect from TY 2026-27 onwards.

[Clause 112]

Buyback of shares

Currently, consideration received by a shareholder for buyback of shares by company is taxable as dividend in terms of section 2(40)(f) of ITA 2025 (section 2(22)(f) of ITA 1961). Further, the cost of acquisition of the shares bought back is separately considered as capital loss under section 69 of ITA 2025.

In order to rationalise the taxation of buyback of shares, it is proposed to charge the consideration received for buyback as capital gain instead of dividend.

Further, considering the influential position of promoters in corporate decision-making including buyback, it is proposed to levy additional tax on buyback consideration received by non-corporate promoters along with the tax at applicable rates, leading the effective tax liability of 30%. In case of promoter companies, the effective tax liability will be 22%.

The amendment is proposed to be effective from TY 2026-27.

[Clause 35]

Exclusion of specified business of non-residents opting for presumptive taxation from MAT applicability

Section 61 of ITA 2025 provides for presumptive taxation of the following businesses carried out by non-residents:

1. Operation of ships, other than cruise ships referred to in serial number 2 below;
2. Operation of cruise ships (subject to the conditions as may be prescribed);
3. Operation of aircraft;
4. Civil construction or erection or testing or commissioning, of plant or machinery, in connection with a turnkey power project, approved by the Central Government;
5. Providing services or facilities (including supply of plant and machinery on hire) for prospecting, extraction or production of mineral oils; and
6. Providing services or technology in India, for the purposes of setting up an electronics manufacturing facility or in connection with manufacturing or producing electronic goods, article or thing in India to a resident company.

Currently, section 206 of ITA 2025 dealing with MAT and AMT excludes, amongst others, certain foreign companies deriving income from categories of businesses enumerated above (except sr. nos. 2 and

6) and opting for presumptive taxation under section 61 of ITA 2025 from the applicability of MAT.

In order to ensure similar treatment to all the businesses opting for presumptive taxation under section 61 of ITA 2025, it is proposed to extend MAT exclusion also to the categories of businesses specified in sr. nos. 2 and 6 above, which currently are not excluded from MAT.

The amendment is proposed to be effective from TY 2026-27 onwards.

[Clause 50]

Rationalisation of MAT provisions

Section 206 of ITA 2025 provides for levy of MAT on companies at the rate of 15% of book profit (other than the units located in IFSC).

It is proposed to reduce the tax rate from 15% to 14%. It is also proposed that unutilised MAT credit under the old provisions of section 115JAA of ITA 1961, as on March 31, 2026, would not be available for set off in in any succeeding year.

An amendment is also proposed to the effect that MAT credit accumulated upto March 31, 2026 under section 115JAA, would be allowed to be carried forward under ITA 2025, only by a domestic company which has opted for the concessional tax rate of 22% under section 200(5) of ITA 2025 or a new manufacturing domestic company opting for the special rate of 15% under section 201(2) of ITA 2025. Such MAT credit is proposed to be restricted to 25% of the normal tax liability for the relevant TY. Remaining MAT credit would be allowed to be carried forward upto 15 TYs from the year in which the credit was first accumulated under ITA 1961.

It is also proposed to allow foreign companies to carry forward the MAT credit accumulated upto March 31, 2026, under section 115JAA of ITA 1961. Set off of such MAT credit would be allowed to the extent of the excess of normal tax above MAT. Remaining MAT credit would be allowed to be carried forward upto 15 TYs from the year in which the credit was first accumulated under ITA 1961.

Tax credit allowed to be set off for a TY would undergo increase or decrease, if the normal tax payable is decreased or increased, consequent to any order passed under ITA 2025.

These amendments are proposed to take effect from April 1, 2026, i.e. TY 2026-27.

[Clause 50]

Non-allowability of Interest as a deduction against Dividend Income

Section 93 of ITA 2025 (section 57 of ITA 1961) provides for deductions from Income from other sources. In respect of dividend income, income from units of mutual funds, and income from units of a specified company as referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002, the deduction of interest is limited to 20% of such income.

It is proposed to amend section 93(2) of ITA 2025 to provide that no deduction of interest shall be allowed from the dividend income, income from units of mutual funds and income from units of a specified company as referred to in section 2(h) of the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002.

This amendment will have the effect of disallowing interest expenditure in its entirety.

This amendment will take effect from April 1, 2026, i.e. TY 2025-26.

[Clause 36]

Extension of due date to claim deduction of payment of employee's contribution by the employer

The existing provisions of section 36(1)(va) of ITA 1961 (section 29(1)(e) of ITA 2025), provide for deduction of any sum received by the employer-assessee from his employees as contribution to any provident fund or superannuation fund or any fund set up under the provisions of Acts of respective funds only if paid by the due date under the relevant social security law. The Supreme Court in the case of Checkmate Services Pvt. Ltd. vs CIT (2022) 448 ITR 518 (SC) had clarified that deduction under section 36(1)(va) is allowable only if employees' contributions were deposited on or before the statutory due date under the relevant labour statutes. Therefore, any delay in deposit of the contribution became liable to be permanently disallowed.

It is proposed to amend section 29(1)(e) of ITA 2025 to define the 'due date' as the due date of filing of the return of income under section 263(1) of the Act. This amendment shall provide relief to those tax payers who delayed depositing the employees contribution for genuine reasons.

There does not seem to be any corresponding relief under ITA 1961.

This amendment is proposed to take from April 1, 2026.

[Clause 31]

Rationalisation of TCS rates

Currently, multiple TCS rates are prescribed in section 394 of ITA 2025 (section 206C of ITA 1961).

It is proposed to provide uniform TCS rates wherever possible. It is also proposed to reduce some of the rates so as to provide relief to the collectees.

The proposed revised rates are as under:

Sr. No.	Nature of receipt	Prevailing TCS rate	Proposed TCS rate
1.	Sale of alcoholic liquor for human consumption	1%	2%
2.	Sale of tendu leaves	5%	2%
3.	Sale of scrap	1%	2%
4.	Sale of minerals, being coal or lignite or iron ore	1%	2%
5.	Remittance(s) under LRS amounting to more than INR 10,00,000 individually or in aggregate	(a) 5% for purpose of education or medical treatment (b) 20% for purposes other than education or medical treatment	(a) 2% for purpose of education or medical treatment (b) 20% for purposes other than education or medical treatment
6.	Sale of 'overseas tour package programme' including expenses for boarding or lodging or any similar expense	(a) 5% for amounts or aggregate of amounts up to INR 10,00,000 (b) 20% for amounts or aggregate of amounts exceeding INR 10,00,000	2%

The amendment is proposed to be effective from TY 2026-27.

[Clause 73]

Application of TDS on supply of manpower

The existing provisions of section 393(1) [Table: Sl. No. 6(i)] of ITA 2025 provide for TDS at 1%/2% from payments made to contractors for carrying out any work.

In order to provide clarity, it is proposed to include deduction of tax at source from payments for supply of manpower. It is proposed to amend section 402(47) of ITA 2025 to include supply of manpower in the ambit of “work” for the purposes of Section 393(1) [Table: Sl. No. 6(i)] or 393(1) [Table: Sl. No. 6(ii)].

The amendment is proposed to take effect from April 1, 2026, i.e. TY 2026-27.

[Clause 78]

Relaxation from obtaining TAN in case of purchase of the immovable property from a non-resident

Section 397(1)(a) of ITA 2025 (corresponding amongst others to section 203A of ITA 1961) requires every person required to deduct / collect tax at source to obtain TAN. Currently, in terms of section 397(1) (c) of ITA 2025, is a resident individual or HUF, who purchases an immovable property from another resident is not required to obtain TAN for deducting TDS from the consideration paid. However, if the seller is a non-resident, such resident buyer is required to obtain TAN.

In order to alleviate the compliance burden on resident individuals / HUFs, it is proposed to amend section 397(1)(c) of ITA 2025 to provide that a resident Individual or HUF is not required to obtain TAN for deducting TDS from consideration paid for purchase of immovable property also from a non-resident seller.

This amendment shall take effect from October 1, 2026.

[Clause 75]

Enabling electronic verification and issuance of certificate for deduction of income-tax at lower rate or no deduction of income-tax

The existing provisions of section 395(1) of ITA 2025 (section 197 of ITA 1961) provide for issuance

of certificates for deduction of TDS and TCS at nil or lower rate.

As per the present provisions, the payee has to make a physical application before the AO.

It is proposed, at the option of the payee, to file such application electronically before the prescribed income-tax authority, which may issue the certificate subject to fulfilment of conditions as may be prescribed, or reject the application if prescribed conditions are not fulfilled or the application is incomplete.

The amendment is proposed to take effect from April 1, 2026, i.e. TY 2026-27.

[Clause 74]

Enabling filing of no-deduction declaration to a depository

Section 393(6) of ITA 2025 (section 197A of ITA 1961) currently provides that no TDS is required to be deducted for specified income categories (which include dividend, interest from securities and income from units of mutual funds), where the deductee furnishes a written declaration in the prescribed form stating that his total income for the relevant year will be nil. This would result in a burdensome compliance process for deductees, who earn income from multiple units and securities, as they would be required to submit separate declaration to each entity.

To streamline this mechanism and reduce compliance burden, it is proposed to allow the filing of such declarations with the depository. The depository would, in turn, transmit the declarations to the concerned entity responsible for paying the income.

Further, under the existing provisions of section 393(7) of ITA 2025, the declaration is required to be furnished to the prescribed authority on a monthly basis. In order to ease compliance for payers, it is proposed to extend this periodicity from monthly to quarterly.

It is clarified that the facility of filing declarations with a depository will apply only in cases where the relevant securities are listed on a recognised stock exchange in India and are held with the depository.

This amendment shall take effect from TY 2027-28.

[Clause 72]

Allowing deduction to non-life insurance business when TDS, not deducted earlier is paid later

Part B of Schedule XIV of ITA 2025 provides for computation of profits and gains from insurance business other than life insurance.

Paragraph 4(1)(a) of Schedule XIV provides that while computing the profits and gains of such business, any expenditure, allowance, etc. which has been debited to profit and loss account but which is inadmissible under sections 28 to 54 shall be added back to the profits and gains.

Relevant section of ITA 2025 provides that any sum, interest, etc. payable on which tax is deductible at source but has not been deducted or deducted but not paid within the due date, then the amount as mentioned in the respective sections shall not be allowed as deduction. However, it also provides that the amount disallowed shall be allowed in a TY when the due tax was deducted and paid as per the provisions of the section.

Currently Paragraph 4(2) of Schedule XIV provides that any amount payable under section 37 of ITA 2025, which is added under paragraph 4(1)(a), shall be allowed as deduction in the TY in which it has been actually paid but such provision does not exist in section 35(b).

The amendment is proposed by adding a new subparagraph, wherein the amount disallowed for TDS not deducted or deducted but not deposited shall be allowed as deduction in which tax has been deducted and paid as per the provisions of the section 35(b) (i) and 35(b)(ii).

The amendment is proposed to take effect from April 1, 2026, i.e. TY 2026-27.

[Clause 113]

No TDS on interest income in certain cases

Section 393 of ITA 2025 deals with deduction of tax at source. It also provides for non-deduction of tax at source, among others, from interest income paid or credited to a banking company. It is proposed to extend this benefit to any cooperative society engaged in carrying on the business of banking (including a cooperative land mortgage bank).

Section 393 also exempts from withholding tax, where the aggregate amount of interest on the compensation amount awarded by the Motor Accidents Claims Tribunal, does not exceed INR 50,000 during the TY.

It is proposed to amend section 393 to provide for complete exemption from withholding tax in the case of interest on the compensation awarded to an individual, retaining the present limit of INR 50,000 in the case of a person other than an individual.

Section 393(6) provides for no deduction of tax at source upon furnishing of a declaration by a resident individual or any other person not being a company or a firm or an individual other than a resident individual, to the person responsible for paying the class of income specified therein.

It is proposed to permit the payee to furnish such declaration electronically, in case of income from specified units, interest on securities or dividend, where such units or securities are held with a depository and such securities are listed on a recognised stock exchange.

The proposed amendment also requires the said depository to deliver, each quarter, the said declaration to the prescribed income tax authority within the specified time-period.

[Clause 72]

Guidelines to be binding on income-tax authorities and person liable to deduct or collect income-tax

The existing provisions of ITA 1961 provide power to the CG to issue guidelines to remove any difficulty arising in giving effect to the provisions relating to TDS/TCS. Such guidelines were binding for the implementation of tax collection and deduction at source. Similar power is provided in the existing provisions of section 400 of ITA 2025. However, section 400 did not provide for a binding framework.

It is proposed to amend section 400(2) of ITA 2025 and align the same with the provision of ITA 1961. The amendment provides that guidelines issued by the CG, to relax provisions of Chapter XIX dealing with collection and recovery of tax, shall be binding on both the income-tax authorities and on any

person who is liable to deduct or collect tax at source and such guidelines shall be placed before each House of the Parliament.

The proposed amendment is intended to take effect from April 1, 2026.

[Clause 77]

Rationalising due dates for filing of return of Income

Section 263 of ITA 2025 (section 139 of ITA 1961) provides for the filing of Income Tax Return by taxpayers.

It is proposed to amend section 263 to rationalise and extend the due dates for following categories of tax payers:

Sr. No.	Tax payer	Conditions	Due date
1.	Assessee (refer note 1)	TP provision applied, requiring furnishing report in Form 3CEB	30 th November
2.	(i) Company; (ii) Other Assessee whose accounts are required to be audited under this Act or under any other law in force; (iii) Partner of a firm whose accounts are required to be audited under this Act or under any other law in force; or the spouse of such partner (refer note 1).	Where TP provisions are not applicable	31 st October
3.	(i) Assessee having income from profits and gains of business or profession whose accounts are not required to be audited under this Act or under any other law in force; (ii) Partner of a firm whose accounts are not required to be audited under this Act or under any other law in force or the spouse of such partner (refer note 1).	Where TP provisions are not applicable	31 st August
4.	Any other assessee	--	31 st July

Note 1- including the partners of the firm or the spouse of such partner if Apportionment of income between spouses governed by Portuguese Civil Code.

It is also proposed to amend Explanation-2 to section 139(1) of ITA 1961 to incorporate the above due dates for non-audit business cases and Trusts requiring no audits.

The corresponding amendments will take effect from April 1, 2026, for TY 2026-27 (ITA 2025) and from March 1, 2026 for AY 2026-27 (ITA 1961).

[Clauses 5, 57]

Extending the period of filing revised return

Section 263 of ITA 2025 (section 139 of ITA 1961) governs filing of returns, including original, belated, revised, and updated returns.

Section 139(5) of ITA 1961 permits taxpayers to revise an original or belated return to correct omissions or errors in original / belated returns, currently within 9 months of the end of the PY or before assessment.

The time limit for filing revised returns under section 139(5) of ITA 1961 is proposed to be extended from 9 months to 12 months, ensuring taxpayers who file belated returns towards the end still have a chance to revise. However, a fee under section 234I (proposed to be newly inserted in ITA 1961), as tabulated hereunder, will apply for revised returns filed beyond 9 months from the end of PY:

Particulars	Fee (INR)
Total income less than or equal to INR 5,00,000	1,000
Total income more than INR 5,00,000	5,000

Amendments are also proposed in sections 263(5) and 428 of ITA 2025 to provide for similar extension of timeline for filing revised returns and a similar fee for revised returns filed beyond 9 months from the end of TY, respectively.

It is important to note that the time limit for filing a belated return however remains unchanged under both ITA 1961 and ITA 2025 (9 months from the end of the PY or TY respectively).

These amendments are proposed to be effective for AY 2026-27 for returns to be filed under ITA 1961, and from TY 2026-27 onwards for returns to be filed under ITA 2025.

[Clauses 5, 12, 57, 83]

Scope of filing of updated return in the case of reduction of losses

Section 263(6) of ITA 2025 (section 139(8A) of ITA 1961) provides for filing of an updated return of Income within forty-eight months from the end

of the FY succeeding the relevant TY. It is inter-alia provided that the updated return cannot be filed if the updated return is a loss return.

It is proposed to amend section 263(6)(b)/(c) of ITA 2025 to permit filing of the updated return in case the taxpayer reduced the amount of loss in comparison to the amount of loss claimed in the original return of loss filed within due date.

A similar amendment is proposed in section 139(8A) of ITA 1961.

The corresponding amendments will take effect from April 1, 2026 for ITA 2025 and from March 1, 2026 under ITA 1961 and would accordingly apply to AY 2026-27 and earlier assessment years.

[Clauses 5, 57]

Permit updated return filing in reassessment cases

Section 263(6)(c)(v) of ITA 2025 (section 139(8) of ITA 1961) restricts filing of updated return where any proceeding for assessment or reassessment or re-computation or revision of income is pending or completed for the said TY .

Section 267(5) of ITA 2025 (section 140B of ITA 1961) provides for payment of additional tax ranging from 25% to 70% of the aggregate of tax and interest payable depending on year of filing of the updated return.

It is proposed to amend section 263(6)(b)/(c) to allow filing of updated return in pursuance of a reassessment notice issued under section 280 of ITA 2025 within the time specified in the said notice. In such a case, the assessee shall not be entitled to file any other return in pursuance to such reassessment notice.

It is also proposed to amend section 267(5) of ITA 2025 to provide for payment of additional income tax of 10% of the aggregate of tax and interest payable (as determined under section 263(1) and 263(3) of ITA 2025) in a case where the updated return is filed pursuant to a reassessment notice under section 263(6)(b)(ii) of ITA 2025.

The amendment is with the objective to promote voluntary compliance by offering the income

for taxation and avoid potential litigation but on payment of additional tax.

It may be noted that the updated return shall not absolve the assessee from reassessment, if the assessing officer still has information qua escaped income.

Similar amendments are proposed to be made to section 139(8) and section 140B of ITA 1961.

The corresponding amendments will take effect from April 1, 2026, i.e. TY 2026-27 and subsequent years for ITA 2025 and from March 1, 2026 under ITA 1961.

[Clauses 5, 57]

Clarification regarding jurisdiction to issue notice under section 148 and for carrying out pre assessment procedure under section 148A of ITA 1961

Section 147 of ITA 1961 deals with cases of income escaping assessment. Procedurally it requires issuance of a notice to the assessee to furnish a return of his income for the said AY. A faceless assessment regime was legislated through the medium of section 144B of ITA 1961. Under this regime the assessment is to be done by the National Faceless Assessment Centre loosely described as the FAO. The FAO, determined through an automated allocation system, is different from the JAO of the assessee who exercises all functions in relation to that assessee other than the task of passing an assessment order. In the context of issuance of notice under section 148 a controversy has been raging for some time now whether, notice under section 148 must be issued by the FAO or by the JAO or either of them can issue. Decisions lie on either side of the divide.

It is proposed to put an end to this controversy, with retrospective effect from April 1, 2021, by inserting section 147A proposing that only the JAO would be always deemed to have the jurisdiction to issue notice under section 148 and for compliance with the procedure prescribed in section 148A, before issuance of notice under section 148.

If, in a given case, the FAO has issued such a notice, that would be rendered bad in law as a result of the proposed amendment.

A similar amendment is proposed to section 279 of ITA 2025, which corresponds to section 147 of ITA 1961. The clarification shall come into force with retrospective effect from April 1, 2021. The amendment to ITA 2025 shall come into force from April 1, 2026.

[Clauses 8 and 62]

Assessments not to be invalid due to DIN related defects

The existing provisions of section 522 of ITA 2025 (section 292B of ITA 1961) inter alia provide that assessment proceedings shall not be invalid merely due to any mistake, defect or omission in such assessment, notice or other proceeding, if the same is in substance and effect in conformity with the intent and purpose of the ITA.

The CBDT Circular No. 19 of 2019 dated August 14, 2019 mandated quoting of a computer-generated Document Identification Number (DIN) on, inter alia, assessment orders issued on or after October 1, 2019.

It is proposed to amend section 522 of ITA 2025 and section 292B of ITA 1961, to clarify that no assessment shall be invalid on the ground of any mistake, defect or omission in respect of quoting of a DIN, if such assessment order is referenced by such number in any manner.

These amendments are proposed to be effective retrospectively from October 1, 2019 for assessment orders passed under ITA 1961, and from TY 2026-27 onwards for assessment orders to be passed under ITA 2025.

[Clauses 26 & 106]

Stay of Demand – Pre-deposit Requirement

Under the existing framework, where an assessee files an appeal against an assessment order and seeks a stay on recovery of the disputed demand, the tax authorities used to grant such stay subject to payment of 20% of the demand (CBDT Office Memorandum F. No. 404/72/93-ITCC dated July 31, 2017).

The Finance Minister in her speech has stated that the pre-deposit amount is proposed to be reduced to 10% and the same shall be calculated only on the core tax demand.

Penalty proceedings for under/mis-reporting of income to be integrated with assessment proceedings and penalty to be levied within one common order to avoid multiplicity of proceedings

Under the existing provisions of ITA 1961, penalty is initiated in the assessment order based on the findings or additions made in it and subject to the status of appellate proceedings. Separate Penalty proceedings are launched subsequently, and penalty is levied after issuing show cause notice and giving due opportunity to the assessee to give his explanation and submissions in response to the notice.

Section 274 of ITA 1961 provides the procedure for imposing penalty. Interest is charged as per the provisions of section 220(2) of ITA 1961, for failure to pay the demand raised under section 156 of ITA 1961 within 30 days of service of notice. section 245MA provides for Dispute Resolution Committee, to resolve disputes of specified small and medium taxpayers and the committee has the powers to reduce or waive any penalty imposable or grant immunity from prosecution for any offence.

The aforesaid existing framework leads to multiplicity of proceedings.

It is proposed to amend section 274 to integrate the penalty proceedings with assessment proceedings and penalty to be levied for under-reporting of income under section 270A within one common assessment order itself.

Section 220 is proposed to be amended to provide that interest under section 220(2) shall be chargeable only after the passing of the order by the Commissioner of Income-tax (Appeals) or the Income Tax Appellate Tribunal (for appeals against DRP order), as applicable. Consequential amendment is also proposed in section 245MA.

The proposed amendments shall be incorporated in ITA 2025 with effect from April 1, 2026, and shall be effective from April 1, 2027, where any draft of the proposed order of assessment under section 275 is made or assessment under section 270 or reassessment under section 279 is made on or after April 1, 2027 apply to assessments or reassessments made on or after April 1, 2027. Similar amendments are also proposed in ITA 1961, which shall come into force from March 1, 2026 and shall be effective

from April 1, 2027 where any draft of the proposed order of assessment under section 144C is made or assessment under section 143 or reassessment under section 147 is made on or after April 1, 2027.

[Clauses 11, 13, 14]

Rationalisation of tax rate under section 195 and penalty under section 443 of ITA 2025 in respect of certain Income

The existing provision of section 195 of ITA 2025 (115BBE of ITA 1961) provides for tax on income referred to in section 102 to 106 (68 to 69D of ITA 1961) at the rate of 60%. Further, the existing provision of section 443 (271AAD of ITA 1961) provides for levy of penalty equal to 10% of the tax payable under section 195, where the income determined includes, any income referred to in sections 102 to 106.

It is proposed to amend section 195 to reduce the tax rate from 60% to 30%. It is further proposed to omit penalty under section 443 and subsume such penalty within the framework of misreporting of income under section 439(11) of ITA 2025.

This amendment will take effect from the April 1, 2026 and shall apply for TY 2026-27 and subsequent tax years.

[Clauses 46, 84, 86]

Rationalisation of Penalties into Fee

The existing provisions of section 428 of ITA 2025 (section 234F of ITA 1961) provide fees for default in furnishing return of income under section 263 of ITA 2025 (section 139 of ITA 1961). Further, the existing provisions of section 447 of ITA 2025 (section 271BA of ITA 1961) provide for penalty of INR 1,00,000 for failure to furnish report under section 172 from an accountant (section 92E of ITA 1961). Further the existing provisions of section 454 of ITA 2025 (section 271FA ITA 1961) provide for penalty of INR 500 per day for failure to furnish statement of financial transaction or reportable account and penalty of INR 1,000 per day for failure to furnish the statement required by section 508(1) as called upon in the notice issued under section 508(7) of ITA 2025 (section 285BA of ITA 1961).

It is proposed to rationalise the above penalties by converting them into fees through amendments to sections 428 and 454. This shall include levy of a

graded fee for failure to get tax audit report with fee of INR 75,000 (delay upto one month) and INR 1,50,000 (thereafter). Further, section 447 is proposed to be omitted, and the levy for failure to furnish TP report under section 172 is proposed to be incorporated in section 428 as a graded fee of INR 50,000 (delay upto one month) and INR 1,00,000 (thereafter). It is also proposed to amend section 454 by levying the penalty of INR 1,000 per day for failure to furnish a statement of financial transactions or reportable account on issue of a notice, while prescribing an overall upper limit of INR 1,00,000 for such penalty.

It will take effect from the April 1, 2026 and shall apply for TY 2026-27 and subsequent tax years.

[Clauses 83, 88, 89]

Increase in maximum amount of penalty in section 466 of ITA 2025

The existing provision of section 466 of ITA 2025 (section 272AA of ITA 1961) provides for a penalty if any person fails to comply with the provision of section 254 of ITA 2025 (section 133B of ITA 1961), i.e. power to collect information, and does not furnish the requisite information to the authorized income-tax authorities. The section further gives power to Joint Commissioner, Deputy Director or Assistant Director or the Assessing officer to impose maximum penalty amounting to INR 1,000.

It is proposed to amend the section 466 so as to enhance the maximum amount of penalty to INR 25,000 from existing INR 1,000.

This amendment will take effect from the April 1, 2026 and shall apply from TY 2026-27 onwards.

[Clause 90]

Penalty provisions for non-furnishing of statement or furnishing inaccurate information in a statement on transaction of crypto-assets

The existing provisions of section 446 of ITA 2025 (section 271B of ITA 1961) relating to penalty for failure to get accounts audited under section 63 (section 44AB of ITA 1961) is proposed to be omitted.

The proposed section 446 is now replaced proposing to impose a monetary penalty for failure to furnish

a statement containing information in respect of transactions in crypto-assets under section 509 of ITA 2025 (section 285BAA of ITA 1961).

It is also proposed to levy a penalty of INR 200 per day for non-furnishing of statement under section 509(1) and INR 50,000 for furnishing inaccurate particulars therein and failure to correct such inaccuracy and also, for failure to comply with due diligence requirements under section 509(5).

The amendment will take effect from the April 1, 2026.

[Clause 87]

Time limit referencing for completing block assessment

Section 296 of ITA 2025 provides for time limit for completion of block assessment. Section 296(1) provides for complex ways of computing the period of limitation one of the deciding factors being the date of execution of last of the authorisations for search. It is proposed to amend section 296(1) to provide for a simplified solitary period of eighteen months from the end of the quarter in which the search was initiated.

This amendment would bring certainty to the last date for completion of the block assessment which would also reduce attendant litigation in this regard.

The amendment is proposed to be effective from April 1, 2026 for search or requisition initiated or made as the case may be, on or after April 1, 2026.

[Clause 65]

Rationalisation of Block period in case of Other searched Person

Section 292 of ITA 2025 (section 153A of ITA 1961) deals with assessment of total undisclosed income for a block period, pursuant to a search. section 295 of ITA 2025 (section 153C of ITA 1961) on the other hand deals with undisclosed income of a person other than the searched person. This happens when the AO of the searched person notices that any undisclosed income belongs to a person other than the searched person. Even in the case of a person other than the searched person, ITA 2025 provides for assessment of a block period (a six-tax year period), (as defined in section 301 thereof).

It is proposed to amend section 295 to provide for assessing the person other than the searched person for period shorter than the six-tax year block period. It is proposed that, where the disclosed income pertains to a single tax year, out of the five-year block period, then the block period shall comprise of a single tax year. It is also proposed to provide that, where the undisclosed income pertains to the tax year (specified year) immediately preceding the year of initiation of search and ending on the date of initiation of the search, then the block period would comprise only of the specified year and the period starting from 1st April of the tax year, in which the search was initiated, and ending with date of execution of the last of the authorisations for such search.

These amendments are aimed at reducing the compliance burden on the person other than the searched person.

The amendment is proposed to be effective from April 1, 2026 for search or requisition initiated or made as the case may be, on or after April 1, 2026.

[Clause 64]

Rationalization of prosecution proceedings

ITA 2025 contains several provisions under Chapter XXII providing for prosecution and imprisonment for a wide range of offences, including failure to comply with search proceedings, non-payment of TDS/TCS, wilful attempt to evade tax, non-furnishing of returns, furnishing false statements, falsification of books of account and obstruction of tax recovery. In many cases, the existing provisions prescribe rigorous imprisonment extending up to seven years, even for offences of a technical or procedural nature.

With a view to advancing the Government's ongoing decriminalisation initiative and to ensure that punishments are proportionate to the gravity of the offence, it is proposed to rationalise the prosecution framework under the ITA.

It is proposed to amend sections 473 to 485 & 494 of ITA 2025 (sections 275A to 278A & 280 of ITA 1961) by:

- ◆ replacing rigorous imprisonment with simple imprisonment in cases such as failure to afford facility to inspect the books of account, failure to pay the tax collected/deducted, wilful

attempt to evade tax, failure to furnish returns of income, etc.;

- ◆ capping the maximum period of imprisonment at two years (as above), and three years for subsequent offences (as mentioned above);
- ◆ introducing graded punishment based on the quantum of tax involved (wilful attempt to evade tax, false statement in any verification, failure to furnish returns of income, etc.)
- ◆ prescribing only monetary fines in above cases where the amount of tax involved does not exceed INR 10 lakh;

Specific rationalisation measures include decriminalisation of certain TDS-related defaults, exclusion of prosecution in specified cases involving winnings from online games and virtual digital assets, graded punishment for offences relating to tax evasion, non-furnishing of returns, false statements and falsification of accounts, and reduction of punishment for disclosure-related offences by public servants. Headings of select prosecution-related sections are also proposed to be aligned and simplified for clarity.

Similar amendments, based on the same principles of decriminalisation and proportionality, are also proposed in the corresponding prosecution provisions in sections 275A to 278A & 280 under ITA 1961.

The amendments in section 473 to 485 & 494 of ITA 2025 will take effect from the April 1, 2026.

The amendments in section 275A to 278A & 280 of ITA 1961 will take effect from the March 1, 2026.

[Clauses 17 to 25 & 93 to 105]

Expanding the scope of immunity from imposition of penalty or prosecution

The existing provisions of section 270AA of ITA 1961 provide a mechanism for grant of immunity by the AO from imposition of penalty under section 270A of ITA 1961 and prosecution and section 440 of ITA 2025 provides a mechanism for grant of immunity by the AO from imposition of penalty under section 439 and initiation of prosecution proceedings under sections 478 or 479 (section 276C or 276CC of ITA 1961), subject to fulfilment of following conditions:

- ◆ payment of tax and interest as per the specified time mentioned in the Assessment order and
- ◆ non-filing of appeal against the assessment order

At present, such immunity is available only in cases of under-reporting of income and does not extend to cases where under-reporting is in consequence of misreporting of income.

It is proposed to amend section 270AA of ITA 1961 and section 440 of ITA 2025 to extend the scope of immunity to cases where penalty proceedings are initiated for under-reporting of income in consequence of misreporting.

In addition to the above two conditions the Assessee would be required to pay additional income tax equivalent to 100% of the amount of tax payable on such income. This amendment will reduce litigation and improve ease of doing business.

Section 440 of ITA 2025 is proposed to be amended on similar lines.

However, where the misreporting is in the nature of unexplained credits, unexplained investments, unexplained assets and similar items referred to in sections 102 to 106 of ITA 2025 (sections 68 to 69D of ITA 1961), payment of additional income tax proposed is at the rate of 120% instead of 100% as in other cases.

The amendment to section 270AA will take effect from March 1, 2026 and will apply to AY 2026-27 and earlier AYs.

The amendment to section 440 of ITA 2025 shall take effect from April 1, 2026 and shall apply from TY 2026-27 onwards.

[Clauses 15, 85]

Amendment in the provisions relating to merger of NPOs

Existing provisions of section 352(4) [Table below provisions of section 352(4) Serial no. 8 B] of ITA 2025 inter alia provide that a specified person shall be liable to pay the tax on accreted income where it has merged with any other entity other than a registered NPO having the same or similar objects. However, the said provision does not capture a situation where a registered NPO merges with any

other registered non-profit organisation having same or similar objects as was provided under section 12AC of ITA 1961.

In order to provide for provisions similar to section 12AC of ITA 1961 it is proposed to insert a new section 354A in ITA 2025 to provide that where any registered NPO merges with any other registered NPO, the provisions of section 352 of ITA 2025 shall not apply if,

- (a) the other registered NPO has same or similar objects; and
- (b) the said merger fulfils such conditions as may be prescribed.

Further, in order to align the existing provisions of ITA 2025 with the provisions of ITA 1961 it is proposed to amend said serial number 8 of Table below section 352(4) of ITA 2025 so as to provide that the specified person shall be liable to pay tax on accreted income where it has merged with, any other-

- (a) entity other than a registered NPO;
- (b) registered NPO having objects same or similar to it but the said merger does not fulfil such conditions, as may be prescribed; or
- (c) registered NPO does not have same or similar objects.

These amendments are proposed to be effective from the April 1, 2026.

[Clauses 69 and 70]

Exclusion of certain funds set up for public charitable activities from the list of specified persons required to apply for registration as NPO

The provisions of section 332 of ITA 2025 specify persons who may apply for registration as a registered NPO. The persons specified also include certain funds referred to in Schedule VII (Table Sl. No. 10 Prime Minister's National relief Fund or the Prime Minister's Citizen Assistance and CARES Fund to Table Sr. no. 16 Chief Minister's Relief Fund or Lieutenant Governor's Relief Fund in respect of any State or Union Territory) set up for public charitable activities who were not required, under ITA 1961 to so apply for registration.

In order to align the said provisions of ITA 2025 with the provisions of ITA 1961 it is proposed to remove the reference of aforesaid funds from list of persons specified in section 332(1)(f) of ITA 2025, so that such funds are not be required to register themselves under section 332 of ITA 2025.

These amendments will take effect from April 1, 2026.

[Clause 66]

Exclusion from specified violations the violation of carrying on of commercial activities by registered NPO established to prosecute object/s of advancement of general public utility

Violation on account of carrying on of commercial activities by registered NPO established to pursue object of advancement of general public utility is proposed to be excluded from specified violations enumerated in the provisions of section 351 of ITA 2025 as such a violation is fraught with the consequence of cancellation of registration of NPO ipso facto which was not intended even under the provisions of ITA 1961.

The amendment is proposed to be effective from April 1, 2026.

[Clause 68]

Furnishing of belated return by NPO

In order to enable NPO to furnish belated return of income, a reference to section 263(4) of ITA 2025, which provides for furnishing of return of income by a person who has not furnished return within time, is proposed to be brought in the provisions of section 349 of ITA 2025 in line with ITA 1961.

The amendment is proposed to be effective from April 1, 2026.

[Clause 67]

Correction in provisions to Income from house property and PAN requirements

It is proposed to amend section 21(5) of ITA 2025 to align it with ITA 1961, to provide that the annual value of property held as stock-in-trade shall be taken as 'NIL' for up to two years from the end of the FY in which the completion certificate is obtained.

Existing provisions of section 22(2) of ITA 2025 provide for a deduction of upto INR 2 lakh for a self-occupied property acquired or constructed with borrowed capital, but this limit excludes prior-period interest. The proposed amendment seeks to revise this provision, so that the aggregate deduction of INR 2 lakh will include both current-year and prior-period interest, bringing it in line with the treatment under section 24 of ITA 1961.

The existing section 262(10)(c) of ITA 2025 empowers the CBDT to make rules requiring PAN to be quoted in documents related to business or profession. However, it does not provide authority to mandate quoting of PAN in documents unrelated to business or profession.

The proposed amendment seeks to align the corresponding section 139A(5)(c) of ITA 1961, by enabling the CBDT to prescribe rules for quoting PAN in all transactions, including those not connected with business or profession, thereby broadening the scope and enhancing tax compliance.

This amendment is proposed to take effect from April 1, 2026.

[Clauses 29, 30 & 56]

Redemption of Sovereign Gold Bonds

Section 70 of ITA 2025 (section 47 of ITA 1961) provides that amongst others, redemption of Sovereign Gold Bonds issued by the RBI under Sovereign Gold Bond Scheme, 2015 shall not be regarded as transfer. Currently, the term 'redemption' is interpreted also to include sale in the secondary market after the minimum holding period prescribed under the Scheme.

Considering that the RBI has issued Sovereign Gold Bonds on a recurring basis through multiple series constituting separate issuances, section 70 of ITA 2025 is proposed to be amended to the effect that redemption of Sovereign Gold Bonds issued by the RBI under the aforesaid 2015 Scheme or any subsequent Scheme shall not be regarded as transfer only if an individual holds them from the date of original issue till maturity. As a result, sale of Sovereign Gold Bonds in the secondary market before maturity may not be eligible for exemption.

The proposed amendment shall be effective from TY 2026-27 and onwards.

The proposed amendment would clear the slight ambiguity in this regard, that exists in the parallel provision under ITA 1961.

[Clause 35]

Exemption on interest income under the Motor Vehicles Act, 1988

The existing provisions of section 11 of ITA 2025 inter alia provide for exemption from tax of specified income of specified persons referred to in Schedule III, subject to fulfilment of conditions specified therein.

It is proposed to amend the said Schedule to provide exemption to an individual or his legal heir, in respect of interest received on compensation covered under the Motor Vehicles Act, 1988 awarded by Motor Accident Claims Tribunal.

The amendment is proposed to take effect from April 1, 2026, i.e. TY 2026-27.

[Clause 108]

Exemption of income on compulsory acquisition of any land under the RFCTLARR Act

Section 96 of the RFCTLARR Act inter alia provides that income- tax shall not be levied on any award or agreement made (except those made under section 46) under the said Act.

Circular No. 36/2016 dated October 25, 2016 clarified that the compensation received under an award exempted from the levy of income tax under section 96 of the RFCTLARR Act shall not be taxable, even if there is no specific provision for exemption under ITA 1961.

It is now proposed to amend Schedule III r.w. sectto provide specific exemption from income tax on any income arising in respect of an award or agreement made on account of the compulsory acquisition of any land under the RFCTLARR Act. The said exemption shall be available to an Individual or HUF. However, the exemption does not apply to awards or agreements made under section 46 of the RFCTLARR Act, relating to acquisitions carried

out through private companies or public-private partnership arrangements.

The proposed amendment is proposed to take effect from April 1, 2026, i.e. AY 2026-27.

[Clause 108]

Exemption for Disability Pension to armed force personnel

The exemption for disability pension granted to members of the Armed Forces, who are invalided out of service on account of a bodily disability that is attributable to, or aggravated by, military, naval or air force service, was first provided under the ITA 1922. Such exemption has continued under ITA 1961 through the repeal and savings clause, and notifications, administrative instructions and clarificatory circulars.

It is proposed to amend the Schedule III of ITA 2025 to specifically provide for exemption of disability pension, covering both the service element and the disability element, only in cases where the individual has been invalided out of Armed Forces service (including paramilitary forces) due to a bodily disability attributable to, or aggravated by, such service. It is proposed that this exemption will not be available in cases where the individual has retired on superannuation or otherwise.

These amendments are proposed to take effect from TY 2026-27 onwards.

[Clause 108]

Introduction of Foreign Assets of Small Taxpayers Disclosure Scheme, 2026

The BMA was enacted to address the issue of undisclosed foreign income and foreign assets held by resident taxpayers. At the time of its introduction, a one-time compliance window was provided from July 1, 2015 to September 30, 2015, to enable voluntary declaration of undisclosed foreign assets acquired upto March 31, 2015, subject to payment of tax and penalty.

It was observed that non-compliance was prevalent in cases, involving legacy or inadvertent non-disclosures by small taxpayers, including holdings

arising from foreign employment benefits, such as ESOPs, RSUs, dormant or low-value foreign bank accounts of former students, saving or insurance policies of returning non-residents and assets held by individuals on overseas deputation.

To facilitate voluntary compliance and enable resolution of such legacy cases of small taxpayers, it is proposed to introduce a time-bound scheme for declaration of foreign assets and foreign-sourced income, with payment of tax or fee, based on the nature and source of acquisition and grant of limited immunity from penalty and prosecution under the BMA for matters covered by the declaration. Some of the silent features of the FAST-DS, 2026 (yet to be notified) are as follows:

- ◆ Scheme can be opted by following assessee (Declarant)
 - o Resident under section 6 of ITA 1961.
 - o NR or RNOR, under section 6(6) of ITA 1961 in the previous year, who was resident in India, either in the previous year to which the income as per section 4 of BMA relates or in the previous year to which the undisclosed asset located outside India was acquired.
- ◆ Amount payable by Declarant

Particulars	Amount Payable
Where the aggregate value of undisclosed asset and undisclosed income, does not exceed INR 1 crore, as on March 31, 2026	• Tax @30% of the value of undisclosed foreign and tax @30% of the value of undisclosed income • 100% of such tax calculated above
Where the undisclosed foreign asset upto INR 5 crore, was acquired during NR status or from income offered to tax, but was not disclosed in the tax return	• Fee of INR 1 lakh

- ◆ Time limit has been provided for payment of amount and interest (if any)
- ◆ Declarant gets immunity from levy of tax, penalty and prosecution under the BMA for income or asset so declared.
- ◆ Scheme does not apply to income or assets representing proceeds of crime under the PMLA or to cases where assessment proceedings under the BMA have already been completed.
- ◆ Definition of various expressions (like undisclosed asset located outside India, undisclosed foreign income, etc.) have been provided

(Clauses 114 to 128)

Relaxation of conditions for prosecution

The existing provisions of sections 49 and 50 of the BMA prescribe prosecution, including rigorous imprisonment and fine, where a resident wilfully fails to furnish a return of income in relation to foreign assets or income, or wilfully omits to disclose foreign assets or income in the return of income.

In order to provide relief in cases of minor and inadvertent non-disclosures and to make it harmonious with the threshold specified in sections 42 and 43 of the BMA imposing penalties for specified failures, it is proposed to amend sections 49 and 50 to provide that these provisions shall not apply in respect of foreign assets, other than immovable property, where the aggregate value does not exceed INR 20 lakh.

These amendments are proposed to take effect retrospectively from October 1, 2024.

[Clause 144]

Deductions in respect of dividends received and distributed by certain cooperative societies

Section 149 of ITA 2025 (section 80P of ITA 1961) provides for deduction in respect of income of cooperative societies.

Under the existing provisions of section 149(2)(b) of ITA 2025, a primary cooperative society engaged in supplying milk, oilseeds, fruits, or vegetables raised or grown by its members is eligible for a 100% deduction of its profits and gains from such business.

It is proposed to amend section 149(2)(b) of ITA 2025 to extend the deduction to the profits and gains from the business of supplying cattle feed and cotton seeds, provided that such supplies are produced by the society's members and made to the specified entities.

Under the provisions of section 149(2)(d) of ITA 2025, a deduction is allowed to a cooperative society for income received as interest or dividend from another cooperative society, but this benefit is currently available only under the old tax regime.

It is proposed to amend section 149(2)(d) of ITA 2025 to allow the deduction of dividend income received by a cooperative society from another cooperative society under the new tax regime, subject to the condition that such dividends are further distributed by the recipient society to its members.

A new sub-section 149(6) is introduced to define consumers, primary agricultural credit society, and primary co-operative agricultural and rural development bank. These were earlier defined in section 150 of ITA 2025 which has now been substituted.

A new section 150 is introduced to grant deduction in respect of income of a federal co-operative. 'Federal co-operative' means a 'federal co-operative' as defined in section 3(k) of the Multi-State Co-operative Societies Act, 2002 and notified as such by the CG. Where the gross total income of a federal co-operative includes any dividend income received from its investment with any company, following deduction shall be allowed:

- ◆ Whole of such dividends which have arisen from investments recorded in the books of accounts on or before January 31, 2026;
- ◆ Dividend has been distributed to its members at least one month before the due date for filing the return of income under section 263(1);
- ◆ No deduction will be allowed for any tax year beginning on or after April 1, 2029.

The idea seems to be to dissuade such cooperatives from investing in the shares of companies.

The amendment is proposed to take effect from April 1, 2026, i.e. TY 2026-27.

[Clauses 39, 40, 48 and 49]

Inclusion of Cooperatives registered under Multi-State Cooperative Societies Act in the definition of Co-operative Society

Section 2(32) of ITA 2025 defines a cooperative society. Presently it is defined to include a society registered under the Co-operative Societies Act, 1912 or under any other law in force for the registration of cooperative societies. It is proposed to include in this definition a cooperative society registered under the Multi-State Cooperative Societies Act, 2002.

The amendment is proposed to be effective from April 1, 2026 i.e. TY 2026-27.

[Clause 27]

Widening the scope of deduction under section 149

Section 149 of ITA 2025 (section 80P of ITA 1961) provides for a deduction of 100% of profits of business of a primary co-operative society engaged in supply of milk, oilseeds, fruits, or vegetables raised / grown by its members to:

1. A federal co-operative society, engaged in the same business; or
2. The Government or a local authority; or
3. A government company or a corporation engaged in the same business.

It is proposed to extend the scope of the 100% deduction to the profits from supply of cattle feed or cotton seeds produced by the members of primary co-operative society.

This amendment is proposed to take effect from TY 2026-27.

[Clause 39]

Increase in rates of STT

The rates of STT as prescribed by section 98 of the Finance Act (No. 2), 2004 have been periodically revised to reflect trends in the market and trading behaviour. The STT rates are proposed to be further revised as below:

Sr. No.	Nature of transaction	Prevailing STT rate	Proposed rate
1.	Sale of an option in securities	0.1% of the option premium	0.15% of the option premium
2.	Sale of an option in security, when option is exercised	0.125% of the intrinsic price	0.15% of the intrinsic price
3.	Sale of futures in securities	0.02% of the traded price	0.05% of the traded price

These amendments are proposed to be applicable to transaction undertaken on or after April 1, 2026.

[Clause 143]

Rationalisation of Schedule XI of ITA 2025 relating to Provident Funds

The existing provisions in Schedule XI of ITA 2025 (Schedule IV of ITA 1961) relating to Recognised Provident Funds contain legacy concepts, that are no longer aligned with the prevailing EPF Act and the Scheme thereunder, as follows:

- ◆ Paragraph 4(c) of Part A - Restriction on employer contributions by reference to parity with employee contributions and mandatory annual crediting of such contributions;
- ◆ Paragraph 5(4) of Part A - Discretionary relaxation of employer-employee contribution parity based on a salary threshold of INR 500 or contingent bonus structures;
- ◆ Paragraph 6(a) of Part A - Deeming employer contributions in excess of 12% of salary as income of the employee;
- ◆ Paragraph 1(d) of Part C - Differentiated limits for employees who are also shareholders of the employer company.

In view of the evolution of the provident fund regulatory framework and unified monetary ceiling of INR 7.5 lakh on aggregate employer contributions under section 17(1)(h) of ITA 2025 (section 17(2)(vii) of ITA 1961), it is proposed to omit the aforesaid paragraphs of Schedule XI.

Further, Paragraph 4(f) of Part A is proposed to be amended to clarify that only provident funds which have obtained exemption under section 17 of the EPF Act may apply for recognition under ITA 2025.

Also, Paragraph 1(e) of Part C is proposed to be amended to remove the cap of 50% investment in Government securities, to align with prevailing investment norms prescribed by the Ministry of Labour and Employment and the Employees' Provident Fund Organisation.

These amendments are proposed to take effect from TY 2026-27 onwards.

[Clause 111]

Indirect Taxes

GST Law Amendments

The Finance Bill, 2026 has proposed the following amendments to implement the recommendations made by the GST Council in its 56th meeting:

Delinking of Post Sale Discounts from Prior Agreement

Currently, section 15(3)(b) of the CGST Act imposes two conditions for supplier to claim deduction of a post-sale discount amount from the taxable value of the supply: -

- (i) The existence of a prior agreement enabling such post-sale discounts; and
- (ii) It is also mandatory for the recipient of the supply to reverse ITC proportionate to the amount of such discount.

However, there is no cross reference to section 34 of the CGST Act, which permits a supplier to issue a credit note to the recipient for passing on a post-sale discount.

The Bill proposes to replace the existing section 15(3)(b) with a new section, to: -

- (i) dispense with the requirement of a prior agreement enabling the supplier to issue a credit note to the supplier for a post-sale discount, and
- (ii) to ensure that proportionate ITC is reversed by the recipient in accordance with section 34.

The proposed amendment shall be effective from a date to be notified by the CG.

[Clause 137]

Amendment to Section 34(1) of the CGST Act which enables issuance of Credit Notes

Section 34(1) of the CGST Act empowers a supplier to issue credit notes to the recipient, if: -

- (i) He had charged excess taxable value or tax in the tax invoice originally issued, or
- (ii) Where the goods or services or both supplied are found to be deficient, or
- (iii) Where the goods supplied are returned by the recipient.

Currently, the above section does not explicitly enable the supplier to issue credit notes to the recipient on account of post-sale discounts.

The Bill proposes to amend section 34(1) to explicitly allow the supplier to issue credit notes on account of post-sale discounts referred to in section 15(3)(b) of the CGST Act.

The proposed amendment shall be effective from a date to be notified by the CG.

[Clause 138]

Amendment to Section 54(6) of the CGST Act to enable grant of 90% provisional refund in cases of IDS

The existing section 54(6) of the CGST Act enables grant of 90% provisional refund of ITC accumulated on account of zero rated supply of goods or services or both to registered persons, other than those notified by the Government as not eligible to such provisional refund.

Currently, the section does not empower the Government to grant such provisional refund in respect of refund claims pertaining to accumulation of ITC on account of IDS.

The Bill proposes to amend section 54(6) to enable grant of 90% provisional refund of ITC accumulated on account of IDS also.

It may be recalled that in GST.2.0, based on the recommendation of the GST Council in its 56th meeting, grant of 90% provisional refund in cases of accumulation of ITC due to IDS, was enabled by Instruction No.06/2025, dated October 3, 2025, of CBIC. Once the amendment as proposed by the Bill is given effect to, such instructions would be ratified.

The proposed amendment shall be effective from a date to be notified by the CG.

[Clause 139(a)]

Amendment to Section 54(14) of the CGST Act, to enable small amounts of refund of IGST paid on export of samples and courier exports

The existing section 54(14) of the CGST Act states that to the effect that no refund of accumulated ITC shall be granted if the amount of refund is less than INR 1,000.

The Bill proposes to amend the above section, to dispense with such restriction in respect of refund of tax paid on export of goods on payment of IGST.

The proposed amendment shall be effective from a date to be notified by the CG.

[Clause 139(b)]

Amendment to Section 101A of the CGST Act, to enable hearing of appeals filed against conflicting Advance Rulings

The existing section 101A(1) of the CGST Act empowers the Government to constitute the National Appellate Authority for Advance Ruling for hearing appeals made under section 101B, based on recommendations of the GST Council.

The National Appellate Authority for Advance Ruling has not yet been constituted. Hence, the Bill proposes to insert a new section 101A(1A), to enable Government to issue notifications, based on the recommendations of the GST Council, empowering any existing Authority constituted under any law for the time being in force to hear appeals made under section 101B, till such time the National Appellate Authority is constituted.

The proposed amendment would take effect from April 1, 2026.

[Clause 140]

Amendment to enable zero rating of the services of “intermediaries” established in India

As per section 13(8)(b) of the IGST Act, the PoS of the services provided by “intermediaries” located in India is not outside India. As a result, one of the conditions for such services to qualify as “export of service” cannot be fulfilled by the “intermediaries” located in India. Hence, such services are liable to GST, unless otherwise exempted.

To remove such an anomaly, in its 56th meeting, the GST Council had recommended deletion of the above section.

The Bill therefore proposes to delete the above section.

The proposed amendment would take effect from the date on which the Finance Bill receives the assent of Hon'ble President.

[Clause 141]

Key Customs Changes Proposed in the Finance Bill 2026

Amendments to the Customs Act, 1962

The amendments proposed to the Customs Act in the Finance Bill, 2026 include the following: -

- ◆ The jurisdiction of the Customs Act is proposed to be extended beyond the territorial waters of India, for the purposes of fishing and fishing related activities by “Indian-flagged fishing vessels”.

A new sub-section (28A) is being introduced in section 2 of the Customs Act, to define the expression “Indian-flagged fishing vessel” to mean a vessel which is used or intended to be used for the purpose of fishing in the seas and entitled to fly the flag of India.

The above amendments would be effective from the date on which the Bill receives the assent of Hon'ble President.

[Clauses 129 & 130]

- ◆ Amendment to enable extension of the validity period of Advance Rulings:

The existing section 28J(2) of the Customs Act states that an advance ruling issued under section 28-I shall be valid for a period of three years or till there is a change in law or facts on the basis of which the advance ruling has been pronounced, whichever is earlier.

The Bill proposes to amend the above section to enable the Advance Ruling Authority to extend the validity of the ruling for five years from the date of the ruling, based on a request by the applicant.

The above amendments would be effective from the date on which the Bill receives the assent of Hon'ble President.

[Clause 132]

- ◆ Insertion of a new section to facilitate fishing activities by Indian- flagged fishing vessels beyond the territorial waters of India:

The Bill proposes to insert a new section 56A in the Customs Act, to enable Indian-flagged fishing vessels to bring the fish harvested by it – free of duty – into India and to treat such fish landed at foreign ports as export of goods, subject to conditions to be prescribed by rules.

The above amendments would be effective from the date on which the Bill receives the assent of Hon'ble President.

[Clause 133]

- ◆ Amendment to enable movement of warehoused goods from one warehouse to another:

The existing section 67 of the Customs Act allows the owner of warehoused goods to move the goods from one warehouse to another, with the permission of the proper officer.

The Bill proposes to substitute the above section with a new section allow the owner to move such goods from one warehouse to another, subject to conditions as may be prescribed, without prior permission of the proper officer. The proposal is intended to ease the compliance burden by placing trust on the warehouse operators and by relying on electronic tracking and risk based audit.

The above amendments would be effective from the date on which the Bill receives the assent of Hon'ble President.

[Clause 134]

Changes to Customs Rules and Regulations

- ◆ Time limit for paying duty under the existing Deferred Payment of Import Duty Rules, 2016 is proposed to be increased from 15 days to 30 days. Also, a new class of 'eligible importers' including manufacturers, and other trusted entities is being created.

The existing rules extend this facility mainly to Authorized Economic Operator (AEO) Tier-Two and Tier-Three importers and Public Undertakings.

- ◆ The Baggage Rules, 2016 are being substituted by a new set of rules. The objective is to simplify procedures and modernize baggage clearance for international passengers, address passenger related concerns at airports and resolve interpretational issues; provide clarity in temporary carriage of goods brought in or taken out to avoid unnecessary detention of goods, and restructure Transfer of Residence benefits for Indian residents and foreign professionals based on duration of stay.
- ◆ To consolidate all baggage-related procedural provisions into a single, comprehensive and facilitative

framework, new Customs Baggage (Declaration and Processing) Regulations, 2026 are proposed.

The existing Customs Baggage Declaration Regulations, 2013, the Baggage (Transit to Customs Stations) Regulations, 1967 and the Passenger's Baggage (Levy of Fees) Regulations, 1966 are being superseded.

- ◆ To provide operational clarity on key aspects of baggage rules and regulations, a Master Circular is being issued to consolidate the statutory provisions, along with applicable instructions from existing circulars/ instructions.

Key Customs Duty Concessions

- ◆ A uniform customs duty of 10%, instead of the existing 20% for all personal imports, including gifts, to simplify the duty structure and ease the financial burden of consumers.
- ◆ 17 cancer drugs, including Ribociclib, Abemaciclib, Talcabtagene autoleucel, etc, are exempted from duty.
- ◆ Exemption for import of critical and cost intensive components of microwave ovens.
- ◆ Duty free personal imports of drugs/ medicines for 7 more rare diseases are proposed.
- ◆ Exemption from BCD on imported capital goods used for manufacturing lithium ion cells for batteries, and for processing of critical minerals.
- ◆ Exemption to import of sodium antimonate for use in manufacture of solar glass.

Key Central Excise Changes

- ◆ Additional Excise Duty on Blended Diesel:

Additional Excise Duty of INR 2 per litre on unblended diesel has been deferred till March 31, 2028.

- ◆ Value of Biogas/ Compressed Biogas and the GST paid on the same is to be excluded from the transaction value for computing the excise duty on CNG, which is blended with the above goods.

The above relaxation has been extended by a notification, with effect from February 2, 2026, thereby acceding to one of the long standing demands of the Oil Industry.

Glossary 2026

Abbreviation	Description
%	Percentage
AE	Associate Enterprise
AI	Artificial Intelligence
AJP	Artificial Juridical Person
AMT	Alternate Minimum Tax
AO	Assessing Officer
AOP	Association of Persons
APA	Advance Pricing Agreement
API	Active Pharmaceutical Ingredients
AY	Assessment Year
BCD	Basic Customs Duty
Bill	The Finance Bill, 2026
BKK	B. K. Khare & Co.
BMA	The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015
BOI	Body of Individuals
BoP	Balance of Payments
CAD	Current Account Deficit
CAGR	Compound Annual Growth Rate
CBAM	Carbon Border Adjustment Mechanism (EU carbon tariff)
CBDT	Central Board of Direct Taxes
CBIC	Central Board of Indirect Taxes & Customs
CCTS	Carbon Credit Trading Scheme
CEA	Chief Economic Advisor
CFR	Council on Foreign Relations
CG	Central Government
CGST Act	Central Goods and Services Tax Act, 2017
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CIT	Commissioner of Income Tax
COICOP	The Classification of Individual Consumption According to Purpose

Abbreviation	Description
CPI	Consumer Price Index
CPSE	Central Public Sector Enterprises
Customs Act	The Customs Act, 1962
DII	Domestic Institutional Investors
DISCOM	Distribution Company
DRP	Dispute Resolution Panel
ECMS	Electronics Components Manufacturing Scheme
EFTA	European Free Trade Association
EPF Act	Employees' Provident Funds and Miscellaneous Provisions Act, 1952
ESOP	Employee Stock Ownership Plan
EU	European Union
EV	Electronic Vehicle
FAO	Faceless Assessing Officer
FAST-DS, 2026	Foreign Assets of Small Taxpayers Disclosure Scheme, 2026
FDI	Foreign Direct Investment
Fed	Federal Reserve
FEMA	The Foreign Exchange Management Act, 1999
FII/FPI	Foreign Institutional Investor / Foreign Portfolio Investor
FM	Finance Minister
Forex	Foreign Exchange
FTA	Free Trade Agreement
FY	Financial Year
GCC	Global Capability Centres
GDP	Gross Domestic Product
GERD	Gross Expenditure on Research and Development
GFCF	Gross Fixed Capital Formation
GST	Goods and Services Tax
GVA	Gross Value Added
HEC	Health & Education Cess
HUF	Hindu Undivided Family
ICAR	Indian Council of Agricultural Research
IDS	Inverted Duty Structure
IDT	Indirect Taxes
IFSC	International Financial Services Centre
IGST	Integrated Goods and Services Tax

Abbreviation	Description
IGST Act	Integrated Goods and Services Tax Act, 2017
IIM	Indian Institute of Management
IIP	Index of Industrial Production
IMF	International Monetary Fund
India-UK CETA	India–United Kingdom Comprehensive Economic and Trade Agreement
INR	Indian Rupees
IPO	Initial Public Offering
ISM	India Semiconductor Mission
IT	Information Technology
ITA 1922	The Income Tax Act, 1922
ITA 1961	The Income Tax Act, 1961
ITA 2025	The Income Tax Act, 2025
ITC	Input Tax Credit
ITI	Industrial Training Institutes
JAO	Jurisdictional Assessing Officer
LFPR	Labor Force Participation Rate
LLP	Limited Liability Partnership
LRS	Liberalised Remittance Scheme
MAT	Minimum Alternate Tax
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MoSPI	Ministry of Statistics and Programme Implementation
MSME	Micro, Small and Medium Enterprises
NDF	Non-Deliverable Forwards
NIMHANS	National Institute of Mental Health and Neuro-Sciences
NPA	Non Performing Asset
NPO	Non-profit Organisation
NR	Non-Resident
NRF	National Research Foundation
NRI	Non-Resident Indian
OBU	Offshore Banking Unit
OPEC	The Organization of the Petroleum Exporting Countries
OSAT	Outsourced Semiconductor Assembly and Test
PAN	Permanent Account Number
PFC	Power Finance Corporation
PLI	Production Linked Incentive

Abbreviation	Description
PM SETU	Pradhan Mantri Skilling and Employability Transformation through Upgraded ITIs
PMLA	Prevention of Money Laundering Act, 2002
PoS	Place of Supply
PY	Previous Year
R&D	Research & Development
r.w.	read with
RBI	Reserve Bank of India
RDI	Research, Development and Innovation
REC	REC Ltd
REIT	Real Estate Infrastructure Trusts
RFCTLARR	Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013
SHAKTI	Strategy for Healthcare Advancement through Knowledge, Technology and Innovation
SHE-Mart	Self-Help Entrepreneur Mart
SME	Small and Medium-sized Enterprises
STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number
TCS	Tax Collected at Source
TDS	Tax Deducted at Source
TEPA	Trade and Economic Partnership Agreement
TP	Transfer Price
TPO	Transfer Pricing Officer
TReDS	Trade Receivables Discounting System
TY	Tax Year
UPI	Unified Payments Interface
US BTA	US-India Bilateral Trade Agreement
USD	US Dollar
VB-G-RAM-G	Viksit Bharat - Guarantee for Rozgar and Ajeevika Mission (Gramin) Act, 2025
VISTAAR	Virtually Integrated System to Access Agricultural Resources
WHO	World Health Organisation
YoY	Year on Year

Notes

[illegible]



Mumbai (HEAD OFFICE)

706-708, Sharda Chambers,
New Marine Lines,
Mumbai 400 020
Tel: +91 22 6243 9500

Pune

Demech House, 814, B wing,
Law College Road,
Pune 411 004
Tel: +91 20 2564 8885

Bengaluru

101 Money Chambers, 1st Floor,
6 K.H. Road, Shanthinagar,
Bengaluru 560 027
Tel: +91 80 4110 5357

Chennai

2nd Floor Crown Court,
Cathedral Road,
Chennai 600 086
Tel: +91 44 4862 9299

New Delhi

1405-06, 38, Ansal Tower,
Nehru Place,
New Delhi 110 019
Tel: +91 11 4905 7624

www.bkkhareco.com

B. K. Khare & Co.
Chartered Accountants

For Private Circulation