NOTE ON INDIAN BUDGET 2026-27

The Indian budget, presented on 1st February, carries heightened significance as it is unveiled against a backdrop of challenging global and geopolitical conditions. Rising trade tensions, ongoing regional conflicts, and growing uncertainty in global financial markets have increased the importance of prudent fiscal management. The budget broadly looks at two goals: **to maintain growth** and to **support business**, to help them scale up, to shield them from global shocks. The budget refrained from any major policy change; it **failed to impress investors**. The Indian stock market fell today on the back of the budget announcement; the market gave a negative reaction. At the start, it was green today. As the budget speech progressed, investors started selling, and with the FM finishing the speech, markets fell sharply.

SENSEX and NIFTY closed in red today; both declined by **1,500 and 495.2 points**, respectively. The **SENSEX was crushed by 1.88%** on Budget day. This is the worst performance of the Indian market over the last six years. As investors were seeking relief for capital markets and confidence for foreign investors, none of it was delivered in the budget. Instead, the biggest announcement was a tax hike.

The Indian Government raised the tax called Securities Transaction Tax ("STT"). The Government raised this tax only for futures and options (bets). The tax rate on futures went up from **0.02% to 0.05%** (a 150% jump). For options trading, on both of its parts such as option premium from 0.1% to 0.15%, and the second part, option exercise, from **0.125% to 0.15%.** It sounds small, but it is too large for traders who buy and sell multiple times in a day.

Indian Budget at a Glance

			(In USD Million)
	Budget Estimates	**Revised Budget Estimates**	**% Change**
	2026-27	**2025-26**	
1. Revenue Receipts	386,475	365,601	5.71
2. Tax Revenue (Net to Centre)	313,599	292,568	7.19
3. Non Tax Revenue	72,876	73,032	(0.21)
4. Capital Receipts	198,443	177,480	11.81
5. Recovery of Loans	4,200	3,302	27.18
6. Other Receipts	8,751	3,701	136.43
7. Borrowings and Other Liabilities	185,492	170,476	8.81
8. Total Receipts (1+4)	584,917	543,081	7.70
9. Total Expenditure (10+13)	584,917	543,081	7.70
10. On Revenue Account of which*	451,268	423,221	6.63
11. Interest Payments	153,574	139,394	10.17
12. Grants in Aid for creation of Capital Assets	53,894	33,707	59.89
13. On Capital Account**	133,649	119,859	11.50
14. Effective Capital Expenditure (12+13)	187,544	153,567	22.13
15. Revenue Deficit (10-1)	64,794	57,620	12.45
% of GDP	*(1.5)*	*(1.5)*	
16. Effective Revenue	10,899	23,913	(54.42)
% of GDP	*(0.3)*	*(0.6)*	
17. Fiscal Deficit [9-(1+5+6)]	185,492	170,476	8.81
% of GDP	*(4.3)*	*(4.4)*	
18. Primary Deficit (17-11)	31,918	31,082	2.69
% of GDP	*(0.7)*	*(0.8)*	5.71
			(Source: Union Budget Documents 2026-2027, Ministry of Finance India)
**** Covers salaries, pensions, subsidies, interest, defence revenue expenses***			
***** Infrastructure-focused (roads, railways, defence, logistics)***			

(In USD Million)			
Expenditure of Major Items			
Heads	**Budget Estimates 2026-27**	**Revised Budget Estimates 2025-26**	**% Change**
Pension	32,401	31,354	3.34
Defence	65,039	62,115	4.71
Subsidy -			
Fertiliser	18,681	20,396	(8.41)
Food	24,899	24,957	(0.23)
Petroleum	1,322	1,654	(20.08)
Agriculture and Allied Activities	17,794	16,610	7.12
Commerce and Industry	7,689	5,723	34.35
Development of North East	745	490	52.09
Education	15,236	13,339	14.22
Energy	11,926	9,459	26.09
External Affairs	2,419	2,378	1.73
Finance	2,259	12,270	(81.59)
Health	11,442	10,351	10.54
Home Affairs (including Union Territories)	27,919	26,415	5.69
Interest	153,574	139,394	10.17
IT and Telecom	8,156	5,901	38.21
Rural Development	29,874	23,272	28.37
Scientific Departments	6,099	4,049	50.63
Social Welfare	6,821	5,475	24.59
Tax Administration	4,977	8,154	(38.96)
Transport	65,469	59,895	9.31
Urban Development	9,355	6,257	49.50
Others	60,820	53,172	14.38
Grand Total	584,917	543,081	7.70

Top 10 Major Announcements:

1. **Budget spelled out three clear priorities:**

   a) Accelerate growth and sustain economic growth so that the economy can stand with global shocks.

   b) Help every Indian fulfil their potential through education, innovation, and job creation.
   c) Ensure inclusive development and access to resources for all.

2. **Capital Expenditure:** This time it is **INR 12.12 lakh crore (USD 133 billion)** in FY27. That is a record allocation; it is a 9% increase from last year. Capital spending on building long-term assets such as roads, bridges, hospitals, railways, airports, etc. The money is spent on creating jobs and boosting productivity in the long term.

3. **Semiconductor and chips** that run modern life, powering gadgets, everything from phones to laptops, cars, and defence systems. India wanted to make it at home. Indian FM wants to revamp the plan that is called India Semiconductor Mission 2.0, to produce equipment and material, design full-stack Indian IP, and fortify supply chains. Also focus on industry-led research and training centres to develop technology and a skilled workforce. Basically, India's own patent chip design and manufacturing, Government push in the electronic manufacturing space. Today, China dominates electronic and chip manufacturing, while the USA and Taiwan dominate chip design. India wants to be self-reliant in these areas, ultimately reduce dependence on imports. For this, the Government set aside **INR 40,000 crore rupees ($4 billion)**.

4. **Focus on rare earths:** These are critical minerals used in making chips and electronics. To widen point 3, India needs a steady supply of rare earths. China controls 90% of rare earths. To avoid this, India proposed rare earth corridors in four Indian states. A rare earth permanent magnets program was launched in November 2025. Now the Government wants to support mineral-rich states of **Odisha, Kerala, Andhra Pradesh, and Tamil Nadu** to establish **dedicated rare earth corridors** to promote mining, processing, research, and manufacturing.

5. **Rail Connectivity:** For years, the Indian budget focused on highways to achieve faster movement of goods. Now the same strategy has been extended to railways. Government proposed **7 high-speed railway corridors** between cities as growth connectors, namely Mumbai to Pune, Pune to Hyderabad, Hyderabad to Bengaluru, Hyderabad to Chennai, Chennai to Bengaluru, Delhi to Varanasi, and Varanasi to Siliguri. These are called growth connectors. Logic is simple: better transport will boost trade and travel, link key economic centres with smaller towns.

6. **Focus on Small Businesses:** The Government wants to support them. It wants to cushion them from tariff shocks and help create jobs. For this, **INR 10,000 crore (over $1 billion)** was announced to support small companies and businesses.

7. **Textile Industry:** This industry was hardest hit by US tariffs. New Delhi launched a five-part integrated scheme to boost the textile industry. Integrated program with sub-parts: a) **The National Fibre Scheme** for self-reliance in natural fibres such as silk, wool, and jute, man-made fibres, and new-age fibres.

   b) **Textile expansion and employment scheme** to modernise traditional clusters with capital support for machinery, technology up gradation, and common testing and certification centers.
   c) **National handloom and handicraft program** to integrate and strengthen existing schemes.
   d) To ensure targeted support for **weavers and artisans**.

8. **Bio-pharma:** Budget 2026 proposes **INR 10,000 crore** to push this sector. Bio-pharma is a specialized field creating advanced medicine from living cells, not chemicals; stuff like **vaccines, gene therapies, and cutting-edge cancer treatment**. The strategy includes a bio-pharma-focused network with three new National Institutes of Pharmaceutical Education and Research, popularly known as NIPERs, upgrading seven existing ones. It will also create 1,000 accredited India clinical trial sites.

9. **Content Creation:** Government wants to invest in training of digital content creators, including animation, gaming, visual effects, and comics, known as the AVGC sector. They require 2 million professionals by 2030. FM proposed to support the Indian Institute of Creative Technology, Mumbai, in setting up **AVGC content creator labs in 15,000 secondary schools all over the country and 500 colleges**.

10. **Developing India as a Logistics Hub:** Budget has a new scheme, a $1 billion fund to promote the manufacturing of containers. The goal is to secure India's place in the global supply chain.

A fiscal deficit target is **4.4% of GDP**. Another announcement on healthcare is to promote medical tourism, and five hubs will be developed for this, with states leading the projects. Plus, there is a push for women in science.

The Finance Bill, 2026 introduces a comprehensive suite of amendments to the Income-tax Act, 2025, the Income-tax Act, 1961, and various indirect tax statutes. The primary objectives of these provisions are to enhance the "Ease of Living," attract global investment into critical sectors like Artificial Intelligence (AI) and data centers, and significantly decriminalize tax-related offenses.

Key Takeaways:

- ➔ Decriminalization: A systemic shift from "rigorous" to "simple" imprisonment for tax offenses, with full decriminalization for tax evasion amounts below ₹10 lakh (replaced by fines) and limited immunity for minor foreign asset non-disclosures.
- ➔ Small Taxpayer Relief: Introduction of the Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026 (FAST-DS 2026) to resolve legacy non-disclosure issues for small holdings like ESOPs and dormant foreign bank accounts.
- ➔ Investment Incentives: Extension of tax holidays for units in International Financial Services Centres (IFSC) to 20 years and BCD exemptions for critical minerals and data center services.
- ➔ Compliance Rationalization: Extension of return filing due dates for non-audit cases to August 31 and increasing the window for revised returns to 12 months.
- ➔ Corporate Taxation: Reduction of the Minimum Alternate Tax (MAT) rate to 14% and the transition of MAT credits to the new tax regime.
- ➔ Market Regulation: Calibrated increase in Securities Transaction Tax (STT) for futures and options to curb disproportionate speculation.

I. Rates of Income Tax (Financial Year 2026-2027)

The Bill maintains the core tax rate structure established in previous years while consolidating the default status of the new tax regime.

Individual and HUF Rates (Default Regime - Section 202)

For individuals, HUFs, AOPs, and AJPs, the following default rates apply for the tax year 2026-27:

Total Income Rate of Tax

Up to ₹4,00,000	Nil
₹4,00,001 to ₹8,00,000	5%
₹8,00,001 to ₹12,00,000	10%
₹12,00,001 to ₹16,00,000	15%
₹16,00,001 to ₹20,00,000	20%
₹20,00,001 to ₹24,00,000	25%
Above ₹24,00,000	30%

Surcharge and Cess

- ➔ Surcharge Caps: The rate of surcharge on dividend income and capital gains (Sections 196, 197, 198) is capped at 15%.
- ➔ High Income Surcharge: For those in the default regime, the maximum surcharge is restricted to 25% even if income exceeds ₹5 crore (effectively removing the 37% bracket for these assessees).

➔ Health and Education Cess: Remains at 4% across all categories.

II. Ease of Living and Compliance Simplification

The Bill proposes several measures to reduce the compliance burden on taxpayers and provide relief in specific hardship cases.

Filing Timelines and Procedures

- ➔ Due Date Extension: For assessees in business or profession not requiring audits and for trusts, the filing due date is extended from July 31 to August 31.
- ➔ Revised Returns: The time limit to file a revised return is increased from 9 months to 12 months from the end of the relevant tax year.
- ➔ Updated Returns: Taxpayers are now permitted to file updated returns even to reduce the amount of loss claimed in a previous return. Additionally, updated returns may be filed following a reassessment notice (Section 280), provided an additional tax of 10% is paid.

Hardship Relief

- ➔ Motor Vehicle Accident Compensation:
- ➔ Interest income on compensation awarded by the Motor Accidents Claims Tribunal is now fully exempt for individuals.
- ➔ No TDS will be deducted on such interest payments, regardless of the amount.
- ➔ Disability Pension: Exemption for disability pension is codified for Armed Forces and Paramilitary personnel who are "invalided out" due to service-attributable disabilities.

Administrative Streamlining

- ➔ Electronic Certificates: Payees can now apply for lower or nil TDS certificates (Section 395) electronically.
- ➔ TAN Relaxation: Resident individuals/HUFs purchasing immovable property from non-residents are no longer required to obtain a Tax Deduction and Collection Account Number (TAN).
- ➔ Depository Declarations: Investors can file "No Deduction" declarations (Form 15G/H) directly with depositories rather than multiple individual entities.

III. Rationalization of Penalty and Prosecution

A central theme of the 2026 Bill is the decriminalization of tax laws to ensure punishments are proportionate to the offenses.

Principles of Decriminalization

1. Nature of Imprisonment: Transitioning from "Rigorous Imprisonment" to "Simple Imprisonment" across most sections (473 to 485).

2. Duration Caps: Maximum punishment generally reduced from 7 years to 2 years (3 years for subsequent offenses).

3. Monetary Thresholds:

    - ➔ Tax < ₹10 lakh: Punishment is limited to a fine only.

- ₹10 lakh to ₹50 lakh: Simple imprisonment up to 6 months and/or fine.
- > ₹50 lakh: Simple imprisonment up to 2 years and/or fine.

4. Black Money Act: Prosecution will not apply for non-disclosure of foreign assets (excluding real estate) if the aggregate value is below ₹20 lakh.

Conversion of Penalties to Fees

Technical delays are being moved from the penalty regime (subject to AO discretion) to a mandatory fee regime to reduce litigation:

- Audit Failures (Section 446): Replaced by a graded fee of ₹75,000 to ₹1,50,000 based on delay.
- Transfer Pricing Reports (Section 447): Converted to a graded fee of ₹50,000 to ₹1,00,000.

IV. Attracting Global Business and Investment

The Bill introduces targeted tax exemptions to position India as a global hub for AI, data services, and high-tech manufacturing.

Data Centers and AI

- Foreign Company Exemption: Foreign companies are exempt from tax on income arising from procuring "data centre services" from specified Indian data centers until March 31, 2047.
- Reseller Requirement: To qualify, services provided to Indian users by the foreign company must be routed through an Indian reseller.

High-Tech Manufacturing and Minerals

- Electronic Goods: Foreign companies providing capital equipment or tooling to Indian contract manufacturers in custom bonded areas are exempt from tax on that income until Tax Year 2030-31.
- Critical Minerals: The list of minerals eligible for prospecting expenditure deductions (Section 51) is expanded to include critical minerals to incentivize exploration.

International Financial Services Centre (IFSC)

- Enhanced Tax Holiday: The 100% deduction period for IFSC units is doubled from 10 years to 20 years (out of a 25-year window).
- Post-Exemption Rate: After the holiday expires, business income from IFSC units will be taxed at a concessional rate of 15%.

V. Corporate Tax and Financial Markets

Rationalization of MAT (Section 206)

- Rate Reduction: The MAT rate for companies is reduced from 15% to 14%.
- Credit Transition: MAT is proposed as a final tax in the old regime. However, existing MAT credits can be set off in the new tax regime (capped at 25% of tax liability for domestic companies).

Share Buybacks

- Capital Gains Treatment: Consideration received from share buybacks will now be taxed as Capital Gains rather than Dividend Income.
- Promoter Tax: To address corporate decision-making influence, promoters will face an effective tax liability of 30% on buyback gains.

Securities Transaction Tax (STT) Increases

To curb excessive speculation in the derivatives market, STT rates are revised upward:

- Sale of Option: Increased from 0.1% to 0.15% of premium.
- Sale of Future: Increased from 0.02% to 0.05% of traded price.

VI. Indirect Tax Amendments

Customs Act and Tariff

- Jurisdictional Expansion: The Customs Act is extended beyond territorial waters to regulate fishing activities by Indian-flagged vessels.
- Umbrella Protection: Basic Customs Duty (BCD) on umbrellas is increased to 20% or ₹60 per piece to support the MSME sector.
- Critical Minerals Exemption: 25 groups of critical minerals are exempted from BCD.
- Personal Imports: BCD on dutiable goods imported for personal use (Heading 9804) is reduced from 20% to 10%, though the Social Welfare Surcharge (SWS) will now apply.

Excise Duty

- Tobacco NCCD: The National Calamity Contingent Duty (NCCD) on chewing tobacco and jarda is revised from 25% to 60% (though effective rates may be maintained at 25% via notification).
- Green Energy: Biogas/Compressed Biogas (CBG) contained in blended CNG is excluded from the transaction value for excise duty computation to promote renewable fuels.

GST Amendments

- Post-Sale Discounts: Requirement to link post-sale discounts to a specific agreement is removed.
- Refunds: Provisional refund provisions are extended to cases of "inverted duty structure," and the threshold for refund claims on exported goods is removed.
- Intermediary Services: Omission of Section 13(8)(b) of the IGST Act to align the "place of supply" for intermediary services with default provisions.

VII. Special Schemes and Clarifications

FAST-DS 2026

The Foreign Assets of Small Taxpayers - Disclosure Scheme, 2026 provides a time-bound window for residents to declare undisclosed foreign-sourced income or assets (like ESOPs, RSUs, or old bank accounts from overseas deputations). Declarant benefits include immunity from penalty and prosecution under the Black Money Act, provided the assets do not involve proceeds of crime.

Judicial Clarifications

The Bill introduces retrospective clarifications to settle ongoing litigation:

- Section 148 Notices: Clarifies that the Assessing Officer (not NaFAC) has the jurisdiction to issue reassessment notices.
- DIN Validity: Assessments will not be invalidated due to minor technical errors in computer-generated Document Identification Numbers (DIN), provided the DIN is referenced in the order.
- TPO 60-Day Rule: Clarifies that the 60-day limit for Transfer Pricing Officer orders includes the date of limitation.