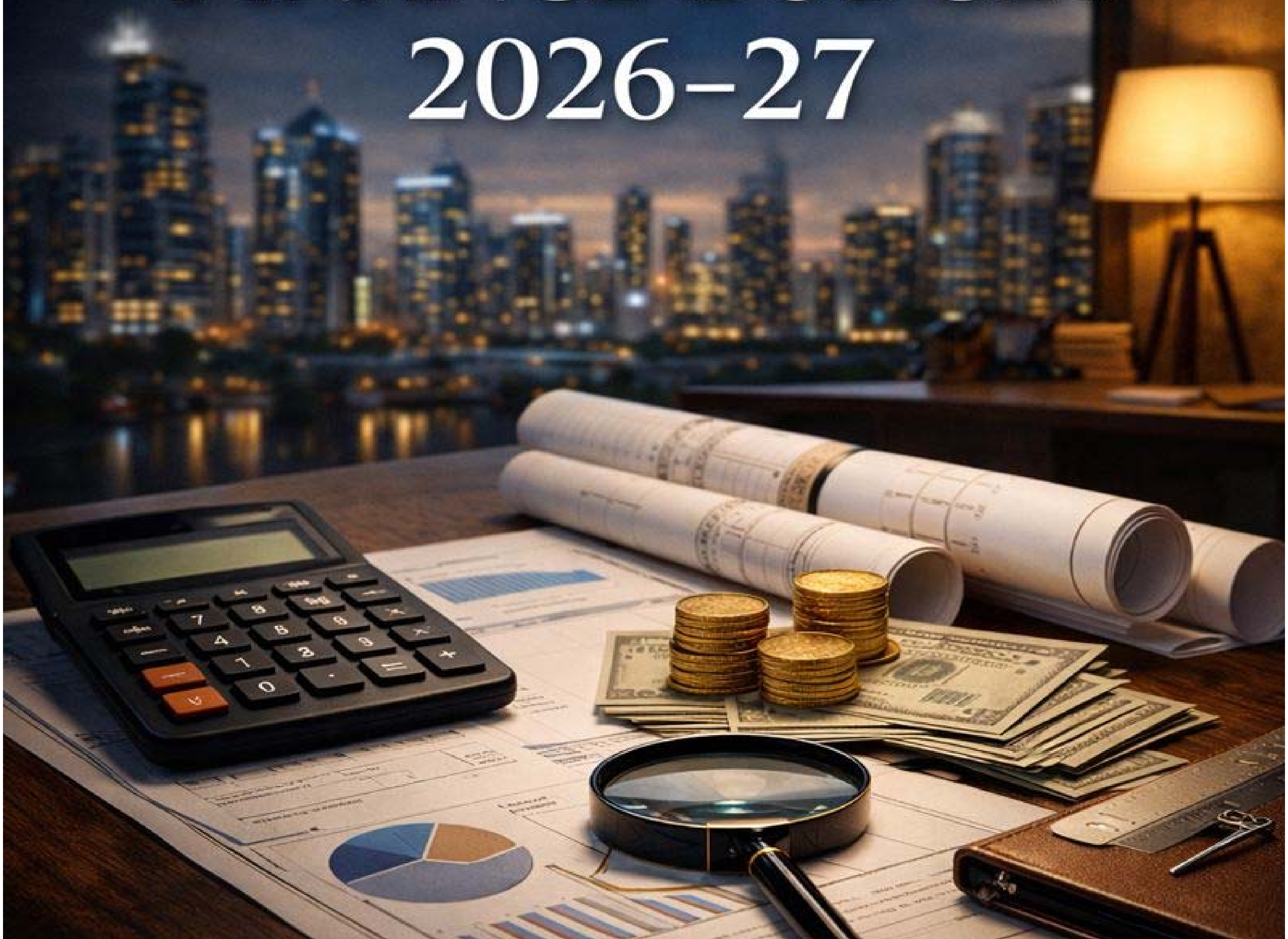
SUKETU C. SHAH & Co

CHARTERED ACCOUNTANTS

FINANCE BUDGET 2026-27



B 905 PREMIUM HOUSE NR GANDHIGRAM
RAILWAY STATION ELLISBRIDGE AHMEDABAD 380006

1. Introduction & Budget Context

The Union Budget for the financial year **2026–27** was presented in Parliament on **1st February 2026** along with the **Finance Bill, 2026**. This is the **9th consecutive Budget** presented by the Hon'ble Union Finance Minister.

The Budget follows the presentation of the **Economic Survey 2025–26** on 29th January 2026, which provides the macro-economic backdrop for policy decisions. The Economic Survey projects India's GDP growth in the range of **6.8% to 7.2%** for FY 2026–27, indicating sustained momentum despite global economic uncertainties.

The Budget continues the Government's long-term vision of **"Viksit Bharat @2047"**, with emphasis on economic growth, inclusion, capacity building, and resilience in a challenging global environment marked by trade disruptions, supply-chain constraints, and geopolitical uncertainties.

2. Government's Vision & Policy Direction

The Budget is guided by three core commitments (*Kartavya*), with special focus on the **poor, underprivileged, and disadvantaged sections of society**:

1. **Accelerating and sustaining economic growth**
2. **Fulfilling aspirations of citizens through capacity building and skill development**
3. **Sabka Saath, Sabka Vikas** – ensuring development across all families, regions, and sectors

The Government's approach balances **growth with inclusion**, while strengthening India's position as a reliable global economic partner and an attractive destination for long-term investments.

3. Focus Areas of Union Budget 2026–27

The Budget focuses on strengthening the foundations of growth while addressing sector-specific and people-centric priorities. Key focus areas include:

- Sustained economic growth and employment generation
- Inclusive growth and social welfare
- Strong push to domestic manufacturing
- Reduction in critical import dependence
- Development of future-ready and strategic sectors
- Infrastructure expansion and urban transformation
- Energy security and clean energy transition
- Support to MSMEs and entrepreneurship
- Continued reforms for ease of doing business

4. Key Sectoral Measures & Initiatives

A. Manufacturing & Industrial Growth

The Budget places strong emphasis on strengthening India's manufacturing ecosystem to support long-term growth and employment:

- **India Semiconductor Mission (ISM) 2.0** to boost domestic chip manufacturing
- **Bio-pharma SHAKTI initiative** to enhance pharmaceutical and biotechnology capabilities
- Establishment of **Hi-Tech Tool Rooms** in Central Public Sector Enterprises
- Industry-friendly **tax and policy reforms** to improve competitiveness

Client impact: Opportunities for manufacturers, ancillary industries, and investors through policy support and infrastructure development.

B. MSMEs & Entrepreneurship

MSMEs continue to remain a central pillar of economic growth:

- **Equity support mechanisms** for MSMEs
- Enhanced **liquidity support through TReDS platform**
- Access to **professional and technical advisory support**

Client impact: Improved access to finance, working capital relief, and formalisation support for MSME clients.

C. Infrastructure Development

The Budget continues the Government's capital expenditure-led growth strategy:

- Focus on infrastructure development in **cities with population above 5 lakh**
- Large-scale public infrastructure funding through **InVITs, REITs, NIIF, and NABFID**
- Increased participation of private capital in infrastructure projects

Client impact: Increased project opportunities for contractors, developers, EPC companies, and allied service providers

D. Urban Development & Connectivity

Key initiatives for urban growth include:

- Development of **7 High-Speed Rail Corridors**
- Focus on **Tier-II and Tier-III cities**
- Special development plans for **temple towns and heritage cities**

Client impact: Growth in real estate, infrastructure, tourism, and service sectors in emerging urban centres.

E. Services Sector & Skill Development

The services sector continues to be a major growth engine:

- New institutions for **Allied Health Professionals (AHPs)**
- Skill training programmes aligned with **NSQF standards**
- Establishment of **3 new All India Institutes of Ayurveda**
- **AVGC Content Creator Labs** to promote creative and digital industries

Client impact: Increased opportunities in healthcare, education, media, and digital services.

F. People-Centric Development Initiatives

The Budget introduces several welfare-oriented measures:

- Setting up of **SHE (Self-Help Entrepreneur) Marts**
- Launch of **Divyangjan Kaushal Yojana**
- Establishment of **Trauma Care Centres in district hospitals**

Client impact: Improved social infrastructure and grassroots entrepreneurship.

5. Economic Indicators & Fiscal Position

Key macro-economic highlights relevant for businesses and taxpayers:

- India remains the **fastest-growing major global economy**
- GDP growth projected at **6.8% to 7.2%** for FY 2026–27
- **Nominal GDP growth** estimated at **10%**
- **Fiscal deficit** estimated at **4.3% of GDP**, lower than the previous year
- Medium-term target to reduce **debt-to-GDP ratio to ~50% by 2030**
- Services sector growth at **9.1%**
- **Capital expenditure allocation of ₹12.22 lakh crore**, up 11% year-on-year
- Total exports reached **USD 825.3 billion** in FY 2024–25
- **Gross FDI inflows of USD 81 billion** in FY 2024–25

6. DIRECT TAX PROPOSALS

1) New Income Tax Law

- Income Tax Act, 1961 will be replaced by Income Tax Act, 2025
- Applicable from 1 April 2026
- Fewer sections, simpler language
- New simplified rules and return forms to be notified

2) MACT (Motor Accident Claims Tribunal) interest received by individuals will be fully tax-free. No TDS on such interest

3) TDS & TCS

TDS Simplification Measures

- **Supply of manpower services** to be expressly treated as **contractual services** for TDS purposes.
- TDS rate rationalised and capped at **1% or 2%**, removing classification ambiguities.
- In case of **purchase of immovable property from Non-Residents**:
    - TDS obligation to be complied with by the **resident buyer**,
    - Deposit through a **PAN-based challan**,
    - **TAN not required**.

TCS reduced for certain categories and is as under

Proposed TCS Rate Changes

Nature of Transaction	Current TCS Rate	Proposed TCS Rate
Sale of alcoholic liquor for human consumption	1%	2%
Sale of tendu leaves	5%	2%
Sale of scrap	1%	2%
Sale of minerals (coal, lignite or iron ore)	1%	2%
Sale of overseas tour program package	5% up to ₹10 lakh and 20% thereafter	2%

Liberalised Remittance Scheme (LRS)

Education and Medical Remittances:

- Nil TCS up to ₹10 lakh
- Reduced to 2% (from 5%) on amount exceeding ₹10 lakh

Other LRS Foreign Remittances:

- Nil TCS up to ₹10 lakh
- 20% TCS on amount exceeding ₹10 lakh (unchanged)

These amendments will be effective from the notified date upon enactment of the Finance Act, 2026. Clients engaged in transactions covered above are advised to review their pricing, invoicing, and cash flow planning accordingly.

Relief Measures for Small Taxpayers

- Introduction of a rule-based automated system for grant of lower / nil TDS certificates, eliminating discretionary interface with the Assessing Officer.
- Depositories permitted to accept Form 15G / Form 15H from investors and transmit the same to all concerned companies.

4) Return Filing – Revised Timelines

- Time limit for filing belated return extended up to 31 March of the assessment year, subject to payment of a nominal fee. Nominal fees of ₹1000 & ₹5000 to be levied for filing Revised Return after 31.12 and before 31.03
- Staggered due dates introduced:
  - Individuals (ITR-1 & ITR-2): 31 July
  - Non-audit business cases and trusts: 31 August
- Even a single day delay in filing Tax Audit report will now attract late fee of Rs. 75,000 and delay of more than 1 Month will attract Rs.1,50,000 as Late Fees
- Now, if an updated return is filed after receiving Notice u/s 280, it must be filed only in the manner specified in the notice, no alternative route allowed.Further, such updated return will attract additional 10% tax over and above tax + interest.Relief: No penalty u/s 439 on income for which this additional tax is paid.
- Allowability of filing ITR-U in case of Loss Return - where Losses in ITR-U are less than Losses claimed in Previous ITR:
  It is proposed to amend section 263(6) of the Act, so as to allow filing of updated return in such cases where taxpayer reduces the amount of loss in comparison to the amount of loss claimed in the return of loss furnished within the due date specified under sub-section (1)

5) One-Time Foreign Asset Disclosure Scheme (Validity: 6 months)

Category A

- Undisclosed foreign income / assets up to **₹1 crore**
- Tax payable:
  - 30% tax, plus
  - 30% additional tax
- **Complete immunity** from penalty and prosecution

Category B

- Foreign income already disclosed but assets not reported
- Asset value up to **₹5 crore**
- Payment of **₹1 lakh fee only**
- **Immunity from penalty and prosecution**

6) Penalty, Prosecution & Litigation Rationalisation

6.1 Procedural Reforms

- Assessment and penalty proceedings to be concluded through a single composite order.
- No interest to be charged on penalty amount during pendency of appeal before CIT(A).

6.2 Stay of Demand

- Mandatory pre-deposit for filing appeal reduced from 20% to 10%, applicable only to core tax demand (excluding interest & penalty).

6.3 Updated Return Provisions

- Taxpayers permitted to file updated returns even after initiation of reassessment proceedings, on payment of additional 10% tax.

6.4 Immunity in Misreporting Cases

- Immunity framework extended to misreporting of income, subject to payment of 100% additional tax. The special tax rate on unexplained income is proposed to be reduced from 60% to 30% (earlier governed by section 115BBE / section 195).
- The separate penalty provision specifically linked to unexplained income is proposed to be omitted. Instead, such cases will now be aligned with the general misreporting framework, where penalty applies only if the income represents misreporting as determined by the Assessing Officer.

6.5 Conversion of Penalties into Fees

- Certain penalties (audit defaults, TP report non-filing, SFT non-compliance) proposed to be converted into fixed fees.

6.6 Decriminalisation

- Minor and technical offences decriminalised.
- Serious offences to have graded punishment, with maximum imprisonment capped at 2 years.

6.7 Foreign Asset Non-Disclosure Relief

- No penalty and immunity from prosecution for non-disclosure of non-immovable foreign assets up to ₹20 lakh.
- Applicable retrospectively from 01-10-2024.

7) Relief to Co-operative Sector

- Deduction provisions extended to cover **cattle feed and cotton seed** supplied by members.
- **Inter-cooperative dividend income** allowable as deduction under the **new tax regime**, if distributed to members.
- **Three-year dividend exemption** granted to notified national cooperative federations on investments made up to **31-01-2026**, subject to onward distribution to member cooperatives.

8) Transfer Pricing Relief for IT Sector

- Software development, IT-enabled services, KPO and contract R&D classified under a single head: "Information Technology Services".
- Introduction of a uniform safe-harbour margin of 15.5%.
- Option to continue safe-harbour regime for 5 consecutive years, at the discretion of the taxpayer.

9) Reform in Income Tax MAT Provisions

Following businesses have been removed for category of MAT for Non-Resident Entity opting for Presumptive Taxation: 1. Business of operation of cruise ships 2. Provision of services or technology for setting up electronics manufacturing facilities in India for resident companies

- With effect from 01.04.2026 under old regime No new mat credit to be allowed

- Rate of MAT Reduced from 15% to 14%

- Setoff of MAT credit under new regime to be allows to domestic companies only to the extent of 25% of Tax Liabilities.

- For the foreign company, setoff of MAT Credit to be allowed to the extent of difference of Tax on total income and MAT for the year in which normal tax is higher that the MAT.

10) Buy-Back Taxses

Earlier, under the existing provisions, the amount received by a shareholder on buyback of shares was treated as dividend income and taxed accordingly. Separately, the cost of acquisition of shares extinguished on buy-back was allowed as a capital loss.

It is now proposed that the entire consideration received on buy-back shall be taxed under the head “Capital Gains”, replacing dividend taxation. Further, to address the special position of promoters in buy-back decisions, an effective tax rate of 30% is proposed for promoter individuals, while promoter companies will be taxed at an effective rate of 22% on gains arising from buy-back.

If you are a non-promoter, you can now offset the purchase price as a capital loss as buyback is now capital gains - effective tax rate at 20% short term and 12.5% long term.

However, Promoters will have to pay 30% as individuals, 22% as companies.

11) Other Important Proposals

- NRI professionals under Govt. Notified Schemes visiting India to get 5-year tax exemption on overseas income
- Going forward, exemption (covering both service element and disability element) will be available ONLY where the personnel is invalided out of service due to a disability attributable to or aggravated by Armed Forces/paramilitary service. Those retiring on superannuation or otherwise, even if receiving disability element, will NO LONGER be covered.The amendment applies prospectively from AY 2026-27 for army and paramilitary personnel.
- Employees’ contribution to PF, ESI and similar funds will be allowed as a deduction if deposited on or before the income tax return filing due date.Earlier, missing the statutory due date meant permanent disallowance. This change brings much needed practical relief.
- Tax-free maturity benefit on SGBs will now apply only if you buy directly from RBI at original issue and hold till maturity. Buying SGBs from the secondary market = NO capital gains exemption.
- The Bill proposes to increase the SecuriTIes TransacTIon Tax (STT) applicable on trading in the stock market, specifically on derivaTIve instruments like options and futures: -
  Option sales: STT increased from 0.10% to 0.15% on the option premium
  Optons on exercise: STT increased from 0.125% to 0.15% on the intrinsic value
  Futures trading: STT increased from 0.02% to 0.05% on the traded value

7. INDIRECT TAX PROPOSALS

A . CUSTOMS

1. Section 1(2) of the Customs Act, 1962 is being amended to extend the jurisdiction of the said Act beyond the territorial waters of India, for the purpose of fishing and fishing related activities.

2. A new clause is being inserted to define the expression 'Indian-flagged fishing vessel'.

3. Section 28(6) is being amended so as to provide that the penalty paid under section 28(5), on determination shall be deemed to be a charge for non-payment of duty.

4. Section 28J is being amended so as to provide that advance ruling shall remain valid for a period of five 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.

5. Baggage Rules, 2016 is being superseded by the Baggage Rules, 2026 to rationalize the baggage provisions and addressing passenger related concerns at airports and resolution of interpretational issues. These changes shall come into effect from midnight of 02.02.2026

6. Extended Validity of Advance Rulings - Advance rulings will now remain valid for 5 years (earlier 3 years), or until there is a change in law or facts, whichever is earlier. Existing advance rulings in force can also be extended to 5 years upon applicant by the applicant.

7. Removes the requirement of prior permission of the proper officer for transfer of warehoused goods from one bonded warehouse to another, subject to prescribed conditions to promoting ease of doing business.

8. The Government proposes to rationalise long-standing customs duty exemptions on items now manufactured domestically or having negligible imports. - A review was carried out of 124 conditional exemptions / concessional BCD entries under Notification No. 45/2025-Customs dated 24.10.2025, expiring on 31.03.2026. - 102 entries are being extended up to 31.03.2028, with or without modifications. - 22 entries will lapse on 31.03.2026 and will not be continued.

Area / Sector	Commodity / Change	Earlier BCD	Revised BCD	Effective Date
Critical Minerals	Monazite	2.50%	**Nil**	02/02/2026
Renewable Energy	Sodium antimonate (solar glass)	7.50%	**Nil**	02/02/2026
	Capital goods for lithium-ion cell manufacturing	As applicable	**Nil**	02/02/2026
Nuclear Energy	Nuclear power generation goods	7.50%	**Nil**	02/02/2026
	Absorber & burnable rods	7.50%	**Nil**	02/02/2026
	Goods for registered nuclear projects	As applicable	**Nil**	02/02/2026
Electronics	Inputs for microwave oven manufacturing	As applicable	**Nil**	02/02/2026
Civil Aviation	Aircraft & aircraft parts incl. engines	As applicable	**Nil**	02/02/2026
Defence	Aircraft raw materials (MoD PSUs)	As applicable	**Nil**	02/02/2026
Drugs & Healthcare	17 specified drugs	5% / 10%	**Nil**	02/02/2026
	Drugs/food for 7 rare diseases (personal import)	As applicable	**Nil**	02/02/2026
Personal Imports	All goods under Ch. 9804	10% / 20%	**10%**	01/04/2026
Chemicals	Potassium hydroxide	Nil	**7.50%**	02/02/2026
Consumer Goods	Umbrellas	20%	**20% or ₹60/unit (higher)**	02/02/2026
	Umbrella parts	10%	**10% or ₹25/kg (higher)**	02/02/2026
Exemption Review	Multiple legacy exemptions withdrawn (fertilisers, solar inputs, medical devices, electronics, gaming, ATMs, SEZ benefits etc.)	Concessional / Nil	**Normal tariff**	02-02-2026 / 01-04-2026

9. A new section 56A is being inserted to provide special provisions for fishing and fishing related activities by an Indian-flagged fishing vessel beyond territorial waters of India.

10. One-Time Concessional DTA Sales for SEZ Manufacturing Units: - As a one-time measure, eligible manufacturing units in Special Economic Zones (SEZs) will be permitted to sell goods in the Domestic Tariff Area (DTA) at concessional rates of duty. Such sales will be restricted to a prescribed proportion of the unit's exports. Necessary regulatory amendments will be notified to operationalise this facility while ensuring a level playing field for domestic units.

B. CENTRAL EXCISE

The Seventh Schedule to the Finance Act, 2001 is being amended to revise the NCCD Schedule rates on chewing tobacco (HS 2403 99 10), jarda scented tobacco (HS 2403 99 30) and other tobacco products including gutkha (HS 2403 99 90) w.e.f. 01.05.2026. ·

Exemption from Central Excise Duty on value of biogas/compressed biogas (CBG) contained in blended compressed natural gas (CNG)

Deferment of date of implementation of higher excise duty on sale of unblended diesel.

C. GOODS AND SERVICE TAX

- Temporary Powers

The Central Government may, pending the constitution of the National Appellate Authority, by notification empower an existing Authority, for hearing appeals under section 101B of the CGST Act, and to provide that the provisions of sub-sections (2) to (13) shall not be applicable where a Tribunal has been so empowered under sub-section (1A). An explanation to sub - section (1A) is also being inserted to clarify that the existing Authority also includes a tribunal.

Refunds Sec 54

- Provisional Refunds shall now also apply to Inverted Duty Structure

- The threshold limit for sanction of refund claims in case of goods exported out of India with payment of tax is done away with

Delinking of Credit Notes

Amendment to Section 15(3) of CGST Act, 2017

Before amendment: If a post-sale discount was given, it had to be linked to a pre-existing agreement to reduce the taxable value. Input Tax Credit (ITC) reversal by the recipient was not clearly tied to credit note issuance.

After amendment: No need for the post-sale discount to be tied to any agreement. If the recipient reverses ITC due to discount, it should be accounted for via a credit note under Section 34.

Effect: Simplifies post-sale discount treatment and clarifies ITC reversal mechanism

Amendment to Section 34 of CGST Act, 2017

Before amendment: Section 34 dealt with **credit/debit notes** but didn't explicitly mention **linkage with Section 15** (value of supply).

After amendment: Section 34 now explicitly refers to **Section 15**, connecting credit/debit notes to the adjustment of taxable value.

Effect: Clear legal linkage between discounts, ITC reversal, and issuance of credit/debit notes.

In simple terms:

- Discounts after sale no longer need an agreement.
- Any ITC reversal due to these discounts must be recorded via a credit note.
- Credit/debit notes under Section 34 now clearly follow the value rules in Section 15.

D INTEGRATED GOOS AND SERVICE TAX (IGST)

In clause 13(8) (b) at present, intermediary services are treated differently and the place of supply is linked to the location of the supplier, which often results in such services being taxed in India even when provided to foreign clients. Now, Amendment seeks to remove this special rule. Thus, now the place of supply for intermediary services will be determined based on the location of the recipient of services

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