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Introduction

The Union Budget ("**Budget**") for the financial year ("**FY**") 2026-27 was presented against a backdrop of robust domestic growth, unusually low inflation, and a fragile global environment marked by geopolitical tensions, trade fragmentation, and volatile capital flows. Growth in India is strong, inflation is relatively low, and banks and large companies have cleaner balance sheets than a few years ago. At the same time, the Economic Survey 2025-26 underscores rising external risks: geopolitical tensions are affecting trade flows, supply chains are being reorganised around security and resilience, and global capital is becoming more selective. Even though India's fundamentals have improved, foreign portfolio flows have become more volatile.

On the fiscal side, the Budget aims to reduce the fiscal deficit to the mid-4% range of GDP while raising capital expenditure to a new high, signalling a strategy of consolidation with continued growth support. The emphasis is on macroeconomic stability, policy credibility, and incremental reform, rather than sweeping structural changes, with a focus on reinforcing key growth pillars: a longer-horizon tax regime for International Financial Services Centre ("**IFSC**") units, measures to deepen India's role as a global capability centre ("**GCC**") hub, supply-chain and customs process reforms to support trade, calibrated liberalisation of foreign investments, and greater tax certainty with an explicit focus on reducing litigation.

We have highlighted for you select tax and regulatory measures of particular relevance to investors and cross-border businesses, and their potential impact on transaction planning, operating structures, and disputes.

Executive Summary

Key Proposal	Details
Liberalizing foreign investments	A planned review of the FEMA (Non-Debt Instruments) Rules, 2019 and expansion of the Portfolio Investment Scheme (PIS) to more non-resident investors with higher limits. The proposal is expected to be implemented through amendments to the existing rules and regulations.

Key Proposal	Details
Operationalizing the new tax code	The Income-tax Act, 2025 ("**2025 Act**") becomes the main law for income-tax from 1 April 2026, while the Income-tax Act, 1961 ("**1961 Act**") continues for legacy years and certain procedures. Appropriate bridge provisions that preserve deductions, incentives and assessments straddling both regimes have been introduced.
Rationalizing buy-back taxation	With effect from April 1, 2026, buy-back proceeds will be characterized and taxed as capital gains in shareholders' hands, with higher, differentiated rates for promoters vis-à-vis non-promoters (22% for promoter companies, 30% for non-corporate promoters, and the applicable capital gains tax rate for other shareholders). This resolves dividend-versus-capital characterization and treaty issues while specifically targeting promoter-driven buy-back transactions.
Extending IFSC tax incentives	The profit-linked deduction for International Financial Services Centre units is reconfigured into a 20-out-of-25-year window (20 consecutive years for Offshore Banking Units), followed by a concessional 15% tax rate. This aligns GIFT City with other global financial centres.
Promoting GCC and data centre capability	Long-dated exemptions and safe harbours for foreign companies using Indian data centres, supplying capital goods/ tooling to bonded contract manufacturers, and holding components in bonded warehouses are being introduced. Additional unified safe harbour for "Information Technology Services", are intended to reduce transfer pricing risks. These moves support global capability centre, cloud, and electronics-led manufacturing models.
Discouraging speculative trading	Securities Transaction Tax rates on exchange-traded futures and options will increase from April 1, 2026 (0.02% → 0.05% on futures; 0.1% and 0.125% → 0.15% on options), explicitly to curb speculative F&O activity and "protect" retail investors, with the economic burden expected to fall primarily on active and high-frequency derivatives traders.
Revisions to the MAT regime	Minimum Alternate Tax will be converted into a final tax at a reduced rate of 14% from April 1, 2026. The existing MAT credits will be usable only in limited annual tranches and within a 15-year cap when migrating to the concessional regimes, and no new MAT credits accruing thereafter.
Tax litigation management	Clarificatory, largely retrospective amendments on reassessment jurisdiction, assessment limitation, and defects in DIN are designed to shut down technical challenges.
Trade and supply-chain measures	A rolling sunset review of customs exemptions, the move to a single-window, system-based clearance architecture, expanded deferred-duty and warehousing flexibilities, together with extended advance ruling validity collectively aim to lower friction, improve predictability, and de-risk customs-facing supply chains.

Foreign Investments: Regulatory Review

The Finance Minister has signalled a broader review of the FEMA (Non-Debt Instruments) Rules, 2019. The intention is to move towards a more modern, easier-to-use foreign investment framework that fits India's current economic priorities. These changes will be made through amendments to the existing rules, not by creating a completely new regime.

Today, under the Portfolio Investment Scheme (PIS), only Non-Resident Indians (NRIs) can invest in Indian listed securities under this route, and their investments are subject to relatively low limits. The Finance Bill proposes three key changes:

- PIS access will be extended to all "Persons Resident Outside India," not just NRIs.
- The individual investment limit will go up from 5% to 10%.
- The aggregate investment limit will go up from 10% to 24%.

The aim is to make it easier for foreign investors to buy Indian listed equities directly, keep investments freely repatriable, and deepen the pool of foreign capital in the Indian markets.

Key takeaways

- Expect a more user-friendly, flexible non-debt foreign investment regime.
- PIS will become a more meaningful route for a wider class of foreign investors, not just NRIs.
- These changes should support deeper foreign participation in India's equity markets.

Legislative Architecture: Transition to the 2025 Act

The Finance Bill, 2026 (the "**Finance Bill**") operationalises the transition from the 1961 Act to the 2025 Act without altering headline statutory tax rates. The policy emphasis is on:

- Completing the legislative migration to the 2025 Act as the primary code for income taxation, and
- Managing a structured run-off of the 1961 Act for legacy years, disputes and residual matters.

For financial year ("**FY**") 2026-27, the Finance Bill contemplates a dual-reference system under which:

- The 2025 Act is the principal legislation governing substantive taxation (charge, heads of income, computation, incentives, losses, etc.) for income accruing/arising in, or relating to, FY 2026-27 onwards.

- The 1961 Act continues to apply:
  - for prior years (income relating to FY 2025-26 and earlier), and
  - to specified residual and procedural matters, including continuation of assessments, reassessments and certain incentive clawbacks triggered after 1 April 2026 but rooted in conditions originally granted under the 1961 Act.

The transition is framed as legislatively complete (i.e., substantive norm-setting is now under the 2025 Act), with the Finance Bill primarily addressing:

- Interface provisions between the two Acts (repeal-and-savings, cross-references, definitional alignment);
- Preservation and controlled run-off of tax holidays/exemptions and timing differences originating under the 1961 Act; and
- A procedural roadmap for legacy assessments, dispute resolution and recovery.

Given this architecture, corporate taxpayers must treat FY 2026-27 as a structurally distinct period, requiring parallel tracking of positions under the 1961 and 2025 regimes and careful reading of transitional provisions and administrative guidance.

Key takeaways

- From FY 2026–27, the 2025 Act is the primary income-tax law; the 1961 Act becomes a legacy and procedural code.
- Transitional rules on incentives, losses and clawbacks are critical and will differ by business and structure.
- Internal tax and finance teams should be prepared to operate in a “dual law” environment for at least a few years.

Rationalization of Buy-back Taxation

India’s tax treatment of share buy-backs is being fully reset and simplified.

Until 30 September 2024, the company paid a buy-back tax on the difference between the buy-back price and the issue price, and shareholders did not pay any tax on the amount received. From 1 October 2024, the tax burden moved to shareholders, and buy-back proceeds were treated as “dividends.” For many foreign investors, this has created confusion, because most treaties and foreign tax systems treat buy-backs as capital transactions, not dividends.

From 1 April 2026, the Finance Bill proposes to realign the regime with the legal nature of a buy-back:

- Buy-back proceeds will be explicitly treated as capital gains in the hands of shareholders.
- Non-promoter shareholders will pay tax at normal capital gains rates – 12.5% for long-term gains and 22–35% for short-term gains, depending on the type of taxpayer.

- Promoters will face higher rates on buy-back gains:
  - 22% for promoter companies;
  - 30% for non-corporate promoters;
  - other shareholders pay the standard capital gains rates.

For listed companies, "promoter" is based on the SEBI definition under the Buy-Back of Securities Regulations, 2018. For other companies, it covers persons who fit the Companies Act promoter test or hold more than 10% of shares, directly or indirectly.

Key takeaways

- Buy-back proceeds will be taxed as capital gains, which is more consistent with commercial reality and global practice.
- This should reduce treaty disputes and allow both companies and investors to model tax outcomes more clearly. Potential for treaty benefits on grandfathered shares may be available on case to case basis.
- Promoter-driven buy-backs will face higher, targeted tax rates compared to non-promoters.

Extension of Tax Incentives for IFSC Units

The IFSC tax regime is being redesigned to give GIFT City a clearer and more attractive long-term profile.

Under the new structure:

- Eligible IFSC units and Offshore Banking Units (OBUs) can claim a profit-linked deduction for 20 consecutive years within a 25-year block.
- After the 20-year holiday, profits from eligible IFSC activities will be taxed at a concessional 15% corporate tax rate, which is meant to be the normal, steady-state rate.

This gives sponsors and financial institutions flexibility. They can choose when to start the 20-year holiday so that it coincides with the scaling-up phase of the business, rather than wasting tax-free years during the early build-out period. It also allows long-cycle businesses such as global treasury centres, aircraft and ship leasing, insurance/reinsurance and structured finance to plan around a realistic, multi-decade horizon.

The post-holiday 15% rate broadly lines up with the OECD Pillar Two global minimum tax. This reduces the risk that headquarter countries will impose top-up taxes on IFSC profits once the holiday ends, and so improves the "net of global tax" economics of using GIFT City versus hubs like DIFC or Singapore.

At the same time, the rules on deemed dividends are tightened. The exemption from deemed-dividend treatment for IFSC finance companies is now limited to genuine cross-border treasury flows where both the IFSC unit and the borrower are in notified foreign jurisdictions. Loans and advances to Indian group entities are brought back into the deemed-dividend net.

New and more precise definitions of "group entity," "parent entity" and "principal entity" clarify which intra-group loans and advances are covered. In practice, groups will need to revisit IFSC-India funding lines, structure cash flows carefully, and support them with stronger documentation.

Key takeaways

- IFSC units get a flexible 20-year profit-linked holiday followed by a long-term 15% tax rate.
- The structure is designed to work with global minimum tax rules and with the business models of large financial institutions.
- Anti-avoidance rules on deemed dividends are tighter, and IFSC cannot be used as a simple tax-free conduit to fund Indian entities.

Positioning India as a GCC and Data Centre Hub

Data Centres

The Finance Bill proposes a major exemption for income of foreign companies from cloud services provided through certain Indian data centres that are owned and operated by Indian companies. The exemption runs up to the tax year ending 31 March 2047.

In simple terms, if a foreign cloud provider uses a qualifying Indian data centre, and the conditions are met, India will not tax the foreign company's income from those cloud services, even though the servers and infrastructure are located in India. This is aimed at long-standing disputes about whether a server or data centre in India creates a "business connection" or permanent establishment (PE).

To qualify, four main conditions must be satisfied:

- The foreign company must not own or operate any of the physical infrastructure or resources of the Indian data centre.
- All sales to Indian customers must go through an Indian reseller.
- Prescribed information and documents must be maintained and shared with the tax authorities.
- The foreign company must be specifically notified by the Central Government.

Where the Indian data centre is operated by an associated enterprise, a safe harbour is proposed for the Indian entity at a 15% mark-up on cost. This gives the Indian company a pre-agreed profit level and is intended to reduce transfer pricing disputes.

This structure allows India to tax the local margins at the data centre and reseller level, while giving comfort to foreign headquarters that their broader global cloud profits will not be pulled into the Indian tax net. It also sends a clear signal that India wants to host large global cloud and data-storage infrastructure with lower tax uncertainty.

Key takeaways

- Long-dated exemption for foreign cloud income routed through specified Indian data centres, up to 2047.
- Strong focus on removing business connection and PE risk, provided strict ownership, reseller and notification conditions are met.
- 15% cost-plus safe harbour for related-party data centre operators should reduce transfer pricing disputes.

Safe Harbour for Information Technology Services

The safe harbour rules for transfer pricing in the technology and outsourcing space are being simplified.

The key changes are:

- IT services, IT-enabled services, KPO and related contract R&D are merged into a single category called "Information Technology Services."
- A uniform 15.5% operating margin is prescribed for this category.
- The eligibility threshold is increased to INR 2,000 crore of operating revenue, making the regime relevant for large captives and GCCs.
- Approvals are meant to be automated and rules-based, and can cover a continuous block of five years.

This is designed to make safe harbours more usable for big service centres that were previously outside the thresholds and frequently faced long transfer pricing disputes. It also reduces constant arguments about classification – IT vs ITES vs KPO vs contract R&D – and instead asks a simpler question: does the entity look like a routine, low-risk service provider?

From a business angle, the benefits are greater certainty, less controversy, and better planning. A five-year lock-in margin allows global groups to price intercompany services and build budgets with more confidence. Automated acceptance, if implemented properly, should cut down on administrative friction and management time spent on transfer pricing litigation.

Key takeaways

- One consolidated safe harbour for large IT/ITES/KPO/contract R&D providers at a 15.5% margin.
- Five-year approval blocks and automation aim to materially lower transfer pricing disputes.
- This strengthens India's positioning as a predictable hub for large-scale tech and back-office operations.

Support for Outsourced Electronics Manufacturing & Component Warehousing

The Finance Bill introduces a specific exemption for foreign companies that provide capital goods, equipment or tooling to Indian contract manufacturers who operate in customs-bonded facilities for electronics manufacturing.

Income earned by the foreign company from these asset arrangements will be exempt from Indian tax up to tax year 2030–31, provided certain conditions are met. The core requirements are:

- The foreign company must retain legal ownership of the machinery and tooling, even though the equipment is in India.
- The assets must be under the control and day-to-day direction of the Indian contract manufacturer, not the foreign principal.

This structure is meant to show that the foreign principal does not have a fixed place of business or a dependent agent PE in India just because its equipment is installed at the Indian factory.

From a policy perspective, this supports India's push into electronics and semiconductor manufacturing, including contract and "asset-light" models. It allows multinationals to deploy high-value equipment into India without complex tax exposure, making it easier to build flexible, capital-intensive production partnerships.

A related measure is the component warehousing safe harbour. Certain non-residents that own components stored in bonded warehouses and sell them to Indian manufacturers will be taxed on only a small deemed fraction of the value as business income, leading to an effective tax rate of around 0.7%, as long as conditions on bonded storage, documentation and traceability are met.

Key takeaways

- Targeted tax exemption supports outsourced, asset-light electronics manufacturing models up to 2030–31.
- Foreign principals can place high-value tools in India without automatically creating a PE, provided control sits with the contract manufacturer.
- The component warehousing safe harbour supports just-in-time manufacturing and global supply-chain integration with low, predictable tax cost.

STT Amendments: Discouraging Speculative Trading

The Finance Bill proposes higher Securities Transaction Tax (STT) on exchange-traded derivatives, specifically futures and options.

The changes are:

- STT on futures contracts will rise from 0.02% to 0.05%.
- STT on options will rise from 0.10% to 0.15% on the option premium, with 0.125% on exercise.

These new rates will apply to relevant derivatives trades executed on or after 1 April 2026. The Explanatory Memorandum links this directly to concerns about rapid and, in the Government's view, excessive growth in speculative F&O activity, especially among retail investors.

By raising STT, the Government intends to make short-term, high-turnover trading more expensive and thereby moderate excessive risk-taking. Over time, the goal is to encourage a shift towards more stable, less leveraged investment behaviour.

From a market standpoint, the immediate impact will be on traders for whom transaction costs are a key input – high-frequency traders, proprietary desks and active derivatives strategies. They will see a clear increase in trading costs that may affect trading styles, liquidity and product design. Exchanges and intermediaries will also need to re-work pricing models, margin structures and client communication ahead of the 2026 start date.

Key takeaways

- STT increases on futures and options are clearly intended to curb speculative trading, not to raise revenue alone.
- The economic impact will be significant for high-frequency and active derivatives traders.
- Market infrastructure entities will need to adjust products, pricing and liquidity strategies well before April 2026.

Revisions to the MAT Regime

The Finance Bill changes the Minimum Alternate Tax (MAT) from a timing-based mechanism into a true minimum tax.

From 1 April 2026:

- MAT will be treated as a final tax, not as an advance that can be set off against future tax.
- The MAT rate will be reduced slightly from 15% to 14%.

In practice, this means that if a company falls into the MAT regime in a given year, the MAT paid that year will be its final tax liability for that year. This aligns MAT more closely with global minimum tax ideas and simplifies long-term cash-tax modelling.

Transitional rules for existing MAT credits under the 1961 Act are strict:

- Brought-forward MAT credits can be used only if the company moves to the new concessional regimes under the 2025 Act.
- Even then, in any one year, MAT credit use is capped at one-fourth of that year's tax liability.
- Each credit must be fully used within 15 years from the year it originally arose.

- No new MAT credits will arise once MAT is treated as a final tax.

For businesses, this means that existing MAT credits become a wasting asset that may or may not be fully used. Companies will need to reassess how much of their MAT credit balance is actually recoverable, update their financial statements, and factor these limits into decisions on moving to concessional regimes.

Key takeaways

- MAT moves from being a prepayment tool to a genuine minimum tax at 14%.
- Old MAT credits are now subject to strict usage caps and time limits and will not grow further.
- Migration decisions into concessional regimes must factor in both headline rates and the real ability to consume MAT credits.

Tax Litigation - Settling Recurring Issues

Jurisdiction for reassessment proceedings

There has been heavy litigation on who is the "proper authority" to issue reassessment notices. Many taxpayers argued that, in the faceless regime, only the National Faceless Assessment Centre (NaFAC) or a faceless assessing officer could issue these notices, and that notices from traditional jurisdictional officers were invalid.

The Finance Bill now clarifies that the jurisdictional assessing officer, not NaFAC, is the correct authority to issue reassessment notices. As long as the officer who has territorial or functional jurisdiction issues the notice as per law, the reassessment cannot be set aside simply because it did not come from NaFAC.

This effectively overturns the position taken in *Hexaware Technologies*[1], where the court had held that only a faceless officer could initiate and complete reassessment once the faceless scheme applied.

Key takeaways

- Procedural challenges based solely on the notice being issued by the "wrong" authority (i.e. not NaFAC) are largely closed off.
- Future disputes on reassessment will need to focus on limitation, escapement of income, statutory conditions and evidence, not on faceless-vs-jurisdictional officer arguments.

Time-limit for completion of assessments

Another major area of dispute has been the time limit for completing assessments, especially where cases go through the Dispute Resolution Panel (DRP). Taxpayers argued that the overall time limits in sections 153 and 153B of the 1961 Act applied even when the DRP route was used, and that final assessments issued after those dates were time-barred.

1 *Hexaware Technologies Ltd v. Asst CIT*, 464 ITR 430

The Finance Bill clarifies that:

- The draft assessment order under section 144C(1) must be issued within the time limit in sections 153 or 153B.
- Once the draft is issued in time, the final assessment can be completed by following the DRP process and the timelines in section 144C, even if the final order comes after the original 153/153B deadline.

In effect, the limitation clock is "checked" at the draft order stage, and the DRP mechanism then runs on its own, independent timeline. The amendment applies retrospectively from 2009 and is meant to overrule cases such as *Shelf Drilling*[2] and *Roca Bathroom*[3], which had held that section 153 time limits override section 144C.

Key takeaways

- The key deadline is now the date of the draft order; DRP timelines then operate separately.
- Many historical DRP-based assessments previously challenged as "out of time" are now likely to be treated as valid.
- Dispute focus will increasingly move back to substantive transfer pricing and other merits, not limitation technicalities.

DIN impact on assessments

CBDT Circular No. 19/2019 made a Document Identification Number (DIN) compulsory for most income-tax communications. This led to a wave of challenges where taxpayers argued that errors in the DIN – such as format issues, mismatches or wrong tagging – made the entire order invalid.

To address this, the Finance Bill introduces a new section 292BA in the 1961 Act, with retrospective effect from 1 October 2019. It states that an assessment order will not be invalid merely because of any "mistake, defect or omission" in the DIN, as long as the order is referenced or linked to some DIN in the system.

In practice, this means that minor DIN errors cannot, by themselves, be used to knock out an assessment if the order is traceable in the tax department's electronic records.

Key takeaways

- Technical DIN defects alone will not nullify assessments where there is clear traceability.
- The DIN system remains important for transparency and control, but minor procedural issues are ring-fenced from being used as stand-alone grounds to void orders.

2 *Shelf Drilling Ron Tappmeyer Ltd v. ACIT*, [2023] 457 ITR 161 (Bom).
3 *CIT v. Roca Bathroom Products Pvt Ltd*, [2022] 445 ITR 547 (Mad).

Pre-payment of demand reduced from 20% to 10%

The Budget also eases cash-flow pressure for taxpayers by reducing the standard pre-deposit for stays at the first appellate level from 20% to 10% of the core tax demand. This 10% is calculated only on the basic tax amount and does not include interest and penalties.

This pre-deposit requirement is not in the statute. It is an administrative guideline issued by CBDT as a condition for granting stay on recovery. The revised 10% standard is expected to be implemented through updated CBDT instructions that replace the current 20% stay guidelines.

The 20% guideline for second-level appeals before the Income Tax Appellate Tribunal (ITAT) remains unchanged and continues to apply on the balance disputed demand.

Key takeaways

- First-level appeals become less cash-intensive: only 10% of core tax (excluding interest and penalty) needs to be paid for stay.
- There is no change in the 20% benchmark for ITAT appeals.
- This should improve liquidity and reduce the financial barrier to filing and pursuing first appeals.

Integrated assessment and penalty orders

The way penalties for under-reporting of income are imposed is also being changed. Under both the 1961 and 2025 Acts, penalties can now be levied within the assessment or reassessment order itself, rather than through a separate, later order.

In cases where a draft assessment order is required, such as many cross-border and transfer pricing matters, the penalty proposal will be part of the draft order. The same appellate route that applies to the tax adjustment will also apply to the penalty, whether the matter goes to the DRP, Commissioner (Appeals) or higher forums.

This "one order, one appeal" structure should reduce multiple, staggered proceedings and give businesses a single view of their total exposure (tax plus penalty) at an earlier point in time.

However, it also means taxpayers must prepare their penalty defence much earlier. Arguments about whether there is real under-reporting, whether the case is a genuine difference of opinion, the quality of disclosure and the existence of reasonable cause will have to be put on record at the draft order and DRP stages.

Key takeaways

- Tax and penalty will now travel together in a single order and a single appeal path.
- This should cut down duplication and delay in penalty proceedings.
- Taxpayers need to think about penalty strategy from day one of a major assessment dispute, not at a later stage.

Decriminalization and rationalization of prosecution thresholds

The Finance Bill significantly softens and rationalises the direct tax prosecution framework under both the 1961 and 2025 Acts.

Key elements include:

- Replacing "rigorous imprisonment" with "simple imprisonment" for many offences, including failure to deposit TDS/TCS, non-filing of returns, false verification and certain search-related defaults.
- Introducing graded thresholds based on the amount of tax, interest or penalty sought to be evaded. In general, imprisonment is reserved for cases where this amount exceeds INR 1 million, with higher slabs (for example, above INR 5 million) carrying longer maximum jail terms.
- Converting various procedural or documentation-related defaults into fine-only offences, especially where there is no clear evidence of wilful concealment.
- Re-working "second and subsequent offence" provisions so that repeat offenders face tougher sentencing bands than first-time defaulters, but still within lower maximum imprisonment terms than under the old law.

Taken together, and viewed alongside the broader Jan Vishwas 2.0 initiative, these changes show a deliberate move to treat most tax non-compliance as a civil or quasi-civil matter. The main tools will be tax, interest and fines, with criminal prosecution kept for serious, high-value evasion.

Key takeaways

- There is a clear policy shift away from routine criminal prosecution and towards a more proportionate, risk-based approach.
- Many technical and low-materiality defaults will now be dealt with through monetary penalties only.
- Senior management faces lower ambient prosecution risk for procedural issues but higher stakes in large, intentional evasion cases.

Customs, Trade, and Supply-Chain Facilitation

Tariff Rationalization and Review of Exemptions

Budget 2026 continues the policy of reviewing all conditional customs exemptions and concessional basic customs duty (BCD) rates on a two-year "sunset" cycle.

Most such entries have been extended, often with modifications, up to 31 March 2028. A more focused set has been allowed to lapse where the concession is no longer needed – for example, imports are negligible, the benefit has become redundant, or domestic manufacturing capacity is now sufficient.

Separately, the Government is pushing a broader "tariffication" exercise. This means reducing overlapping rate instruments, folding concessions into the main tariff schedule, and bringing headline tariff rates closer to the actual applied rates. The objective is to give businesses a clearer view of true trade costs and to address criticism that India's tariff schedule overstates protection compared to what is actually charged.

From a sector perspective, customs changes continue to support India's manufacturing, infrastructure and energy-transition priorities. Concessional BCD treatment is extended, and sometimes refined, for key inputs for lithium-ion cells (including those used in battery-energy storage systems and EVs), aircraft components and MRO, selected items for nuclear power projects, and critical mineral processing.

Export-facing sectors retain concessional duty treatment for specified inputs, but with tighter performance and end-use conditions. Many exemptions are now more directly tied to export performance and subject to more granular tariff lines and reporting, which increases traceability and accountability.

Key takeaways

- Customs concessions are moving to a more time-bound, targeted and performance-linked model.
- Key inputs for manufacturing and energy transition continue to enjoy concessional treatment, but with clearer time limits and conditions.
- Export-linked exemptions survive, but with sharper guardrails and higher compliance expectations.

Single-Window Clearance and Customs Integrated System

Budget 2026 takes forward the shift towards a single-window, fully digital customs environment.

At the front end, a new Single Government EXIM Interface (SWIFT 2.0) will act as the common portal for all interactions with Customs and other government agencies involved in cargo clearance. Regulators for food safety, plant and animal quarantine, drugs and wildlife will be integrated into SWIFT 2.0 in phases, with defined timelines. This is meant to replace multiple portals and physical touchpoints with one digital interface.

Behind this, a new Customs Integrated System (CIS) will replace the current patchwork of function-specific IT applications and port-level systems. CIS is planned as a single national digital backbone covering imports, exports and transhipment across all modes – sea, air, land, courier and post. It will use standardised data models, automated data population from existing filings, real-time validations and AI-driven risk analysis. CIS is also designed to connect directly with GSTN, DGFT, RBI and sector regulators to allow straight-through data flows, real-time dashboards and better audit trails.

For traders, logistics providers and corporates with multi-port operations, SWIFT 2.0 and CIS together should create a simpler and more predictable operating environment. In everyday terms, this means a single login and portal, more uniform procedures across ports and airports, less duplication of documents and data, and more consistent clearance times.

Key takeaways

- SWIFT 2.0 plus CIS are intended to deliver a true single-window, digital customs experience.
- Businesses can expect fewer manual touchpoints, less duplication and more standardised procedures across ports.
- Early alignment of internal systems with the new architecture should help reduce dwell times and compliance friction.

Trust-Based Facilitation for Traders

Budget 2026 continues to build a "trust-based" customs framework, with special benefits for compliant traders.

For Authorised Economic Operator (AEO) importers at Tier-2 and Tier-3, the time allowed to pay customs duty after clearance is extended from 15 days to 30 days. This directly improves working capital for large, compliant importers.

A new category of "eligible importers" is also being created to access similar deferred duty benefits, subject to risk- and compliance-based criteria. This allows businesses that are not yet AEOs, but have strong records, to benefit from these facilities.

The AEO programme remains central to this model. The Budget encourages other regulators to recognise AEO status, turning it into a broader "trusted trader" credential. Data published by Customs already shows much faster average release times for AEO consignments compared to others. Combined with deferred duty, streamlined documentation and priority processing, this makes the business case for AEO certification much stronger.

Separately, the warehousing framework is being modernised. Section 67 of the Customs Act, 1962 is being amended to remove the requirement for prior permission to move goods from one bonded warehouse to another. Instead, such movements will be based on electronic self-declarations, system acknowledgements, digital records and, where appropriate, electronic cargo tracking.

Key takeaways

- Trusted traders (especially AEO Tier-2 and Tier-3) get longer deferred-duty periods and better working-capital outcomes.
- AEO status becomes a more valuable cross-regulator credential for serious manufacturers and supply-chain players.
- The bonded warehousing regime becomes more flexible and technology-driven, supporting modern hub-and-spoke logistics models.

Customs Litigation Management

The Budget also introduces measures aimed at lowering penalty-driven customs disputes and encouraging faster closure of cases.

A key change is to section 28(6) of the Customs Act. This provision covers "voluntary compliance" cases where an importer or exporter, after receiving a notice under section 28(4), pays duty, interest and a reduced 15% amount within 30 days. In the past, this 15% element was treated as a "penalty."

Under the amendment, the total amount paid within this 30-day window will be described in law as a "charge for non-payment of duty," not as a penalty, even though the quantum and timelines stay exactly the same. This re-labelling is aimed at reducing the stigma and collateral consequences of a "penalty" in compliance records and financial statements. It is meant to make early settlement more attractive in borderline cases where management is focused on certainty and clean accounts.

Separately, the validity of customs advance rulings is being extended from three years to five years. Existing rulings that are in force when the Finance Bill receives Presidential assent can, on application, be extended to a total life of five years from the original date. This better matches the long-term nature of many investments and supply arrangements and reduces the need to file repeat applications just because a ruling has expired.

Key takeaways

- The 15% amount under section 28(6) will now be described as a charge, not a penalty, reducing reputational and accounting concerns around early settlement.
- Advance rulings will last five years, not three, which is more aligned with real project and contract timelines.
- Overall, the customs changes encourage voluntary compliance and quicker, less contentious resolution of disputes.

Conclusion

Budget 2026 is not a "big bang" tax giveaway. It focuses on codifying the new direct tax framework, refining incentives and signalling stability. It completes the shift to the new direct tax code, embeds a more usable safe harbour regime for large technology and service hubs, and continues the move from a criminal-led to a civil, trust-based enforcement model. These measures are balanced against fiscal consolidation and higher capital expenditure, with a clear focus on keeping India competitive as global capital and supply chains are reallocated.

For financial investors and cross-border businesses, the policy direction is clearer than in prior years. The regime for IFSC units now has a longer horizon and is more competitive, incentives for data centres and electronics-led manufacturing are sharper and more targeted, and safe harbours for IT and related services are broader and more accessible for large captives. At the same time, higher STT on futures and options reflects a deliberate tightening on speculative derivatives trading and a preference for more stable, lower-risk market participation.

On the administration side, the Finance Bill focuses on "front-ending" certainty. Clarificatory amendments on reassessment jurisdiction, limitation periods, documentation, DIN defects, penalties and pre-deposits are meant to reduce technical challenges and procedural litigation. Prosecution and customs reforms further shift the emphasis towards civil consequences and early closure. Some retrospective clarifications, however, inevitably reduce predictability by changing outcomes after disputes have arisen. Taxpayers should assess these measures together—focusing on their impact on tax cost, dispute risk and capital allocation over a 5–10-year horizon—rather than in isolation, and adjust structures and compliance strategies accordingly.