

INDIA 2026-27

UNION BUDGET

IMPACT STUDY FOR FOREIGN ENTITIES



Executive Overview

India's Union Budget 2026-27, presented on 1 February 2026, places strong emphasis on investment promotion, ease of doing business, global integration, and long-term competitiveness. Strategic reforms aim to position India as a compelling destination for foreign capital, global digital services, manufacturing linkages, financial services, and equity market participation.

Implementation of the New Income Tax Act, 2025 (Effective 1 April 2026)

- The Income-tax Act, 2025 is a comprehensive overhaul of India's direct tax framework, replacing the Income-tax Act, 1961. It aims to simplify and modernise tax rules, procedures, and compliance.

Key Features

- Introduction of a unified Tax Year concept replacing the "assessment year / previous year system, thereby streamlining income taxation.
- Reduction in the number of sections with clearer language to minimise ambiguity and litigation.
- Strong emphasis on digital filing and faceless assessments to reduce human interface and disputes.
- Faster processing of refunds and greater clarity on deductions such as standard deduction, house property interest, and pre-construction interest.

What this means: Easier compliance for taxpayers, fewer disputes, and faster processing of assessments and refunds.

Rationalisation of Tax & Investment Incentives

20-Year Tax Holiday for IFSC & Data-Driven Services

- Businesses establishing operations in GIFT City are eligible for a 20-year tax holiday (earlier 10 years), followed by a 15% flat corporate tax rate.
- Foreign cloud and global digital service providers using India-based data centres are granted income tax exemption until 2047 on income derived from such services.
- A safe harbour margin of 15% on cost applies where the resident data centre provider is a related entity.

Tax-free toll manufacturing for electronics

- Foreign companies supplying capital goods, equipment, or tooling to Indian contract manufacturers through customs-bonded warehouses are eligible for income tax exemption until 31 March 2031, subject to prescribed conditions.

- *Impact: Enhanced tax certainty and major cost savings for international finance, technology, and digital services firms planning India-centric operations.*

Minimum Alternate Tax (MAT) Reforms

- MAT redefined as a final tax under the old tax regime, effective 1 April 2026.
- MAT rate reduced from 15% to 14%.
- Accumulation of MAT credit ceases from 1 April 2026.
- Domestic companies may utilise MAT credit up to 25% of tax payable.
- Foreign companies may utilise 100% of accumulated MAT credit.
- MAT not applicable to foreign companies engaged in specified presumptive taxation businesses.

Ease of Compliance & Global Mobility

Simplification for Sale of Property

- Resident buyers purchasing immovable property from non-residents are no longer required to obtain a Tax Deduction Account Number (TAN).

Impact: Reduced compliance burden and smoother cross-border property transactions.

LIBERALISED INVESTMENTS

Increased Direct Equity Access for Overseas Investors

- Persons Resident Outside India (PROIs) and foreign nationals can directly invest in Indian listed equities through the Portfolio Investment Scheme (PIS).
- Investment limits increased to 10% per investor and 24% collectively in a company.

Impact: Broader investor base, improved liquidity, and deeper global participation in Indian capital markets.

STRATEGIC SECTOR INCENTIVES & MANUFACTURING PUSH

Infrastructure, Manufacturing & Multi-Modal Connectivity

- Public capital expenditure increased to ₹12.2 trillion (~US\$133 billion).
- Priority sectors include manufacturing, semiconductors, biopharma, textiles, and capital goods.

Impact: Stronger supply chains, improved logistics, and enhanced global competitiveness for foreign investors.

Safe Harbour Rules & Transfer Pricing – IT / ITES Sector Updates

- Earlier, Safe Harbour margins ranged between 17% and 24%, depending on the nature of activity.
- Budget 2026–27 introduces a uniform Safe Harbour margin of 15.5% across software development, ITES, KPO, and contract R&D services.
- Impact: Lower tax costs, reduced benchmarking pressure, and a significant drop in transfer pricing disputes for service providers and GCCs.

Turnover Threshold for Safe Harbour

- Previously, Safe Harbour benefits were available only to entities with turnover up to INR 300 crore.
- The threshold has now been increased to INR 2,000 crore.
- Impact: Substantially wider eligibility, allowing large and mid-sized multinational groups and GCCs to opt for Safe Harbour with certainty.

Safe Harbour Approval Process

- Earlier approvals were manual and discretionary, often leading to delays and uncertainty.
- The new regime introduces an automated, rule-driven approval process, with approvals valid for five years.
- Impact: Faster approvals, reduced administrative burden, and long-term certainty in tax planning.

Advance Pricing Agreements (APA)

- APA processes were historically time-consuming, often stretching over several years.
- Budget 2026–27 introduces fast-track unilateral APAs, targeted to be concluded within two years, with a possible six-month extension.
- Impact: Faster dispute resolution, improved pricing certainty, and reduced litigation exposure.

Specified Domestic Transactions (SDT)

- Earlier, SEZ units were included within the scope of Specified Domestic Transactions.
- The Budget now excludes SEZ units from SDT provisions.
- Impact: Reduced compliance requirements and lower litigation risk for SEZ entities.

Foreign Assets of Small Taxpayers – Disclosure Scheme (FAST-DS) 2026

Objective of the Scheme

The scheme provides a structured amnesty framework to enable disclosure of undisclosed foreign assets and income. It allows taxpayers to regularise past non-compliance at a defined tax cost, with immunity from penal and prosecutorial consequences.

Retrospective Immunity for Small Foreign Assets

The scheme offers retrospective immunity from 1 October 2024 for non-disclosure of certain foreign assets. This benefit applies to small foreign assets (excluding immovable property) valued below ₹20 lakh, encouraging voluntary compliance while allowing authorities to focus on material cases.

Payment Timeline

Payment must be made within two months from the end of the month in which the tax order is received. An additional two-month extension is available, subject to 1% simple interest per month.

Eligible Persons

The scheme is open to:

- Residents
- Non-residents
- Resident but Not Ordinarily Residents (RNORs)
- who were residents at the time the foreign income was earned or the foreign asset was acquired.

Category A

Covers undisclosed foreign assets and income up to ₹1 crore, which can be regularised at a flat tax rate of 30% on the fair market value (FMV) or income.

Category B

Applies to undisclosed foreign assets up to ₹5 crore, where the income has already been declared and taxed, but the asset itself was not disclosed earlier. This category provides a pathway to regularise asset disclosure without reopening past tax payments.

Nature of Levy

The levy under the scheme is designed as a one-time tax, providing a clean exit from past non-disclosure liabilities and closing legacy exposure under foreign asset reporting laws.

Tax Order Timeline

The tax determination order will be issued within one month from the end of the month in which the declaration is filed, ensuring time-bound resolution.

Assets Covered

The scheme covers foreign financial interests, including:

- Bank accounts
- Investments
- Beneficial ownership interests
- Other overseas financial holdings

Cases Covered

Eligible cases include:

- Non-filers
- Prior non-disclosure cases
- Instances where escaped income was assessed under Section 147

Immunity Granted

Successful declaration provides full immunity from:

- Tax penalties
- Prosecution under the Black Money (Undisclosed Foreign Income and Assets) Act for all years up to 31 March 2026

Key Exclusions

The scheme does not apply to:

- Cases involving proceeds of crime under PMLA
- Matters with ongoing or completed assessments under the Black Money Act

Customs Act Amendments – Key Changes

Extension of Customs Jurisdiction

The Customs Act has been extended to Indian-flagged fishing vessels operating beyond territorial waters. Fish caught outside territorial waters can now be imported duty-free, while fish landed at foreign ports will be treated as exports.

Impact: This brings greater regulatory clarity, strengthens maritime oversight, and improves trade certainty for the fishing and export sectors.

Advance Rulings – Validity

The validity period of Customs Advance Rulings has been extended from 3 years to 5 years

Impact: Enhances predictability and reduces uncertainty for importers and exporters by providing longer-term clarity on classification, valuation, and duty applicability.

Transfer between Bonded Warehouses

The requirement for prior customs permission for transferring goods between bonded warehouses has been removed.

Impact: Enables faster movement of goods, reduces procedural delays, and improves overall supply-chain efficiency and operational flexibility.

Customs Tariff Rationalisation

BCD Structure

Effective Basic Customs Duty (BCD) rates are now embedded directly in the First Schedule of the Customs Tariff Act.

Outcome: This reduces reliance on multiple exemption notifications, improving transparency and certainty in customs duty application.

Duty Rates

There is no change in effective customs duty rates as part of this rationalisation exercise.

Outcome: The reform is revenue-neutral, ensuring business continuity while improving administrative efficiency.

Tariff Lines

New tariff lines have been introduced to align with the rationalised duty structure.

Outcome: Enhances classification accuracy and reduces disputes arising from ambiguity in tariff interpretation.

Overall Impact

The rationalisation results in a simplified tariff structure with improved transparency.

Outcome: Fewer classification disputes, easier compliance, and a more predictable customs framework for importers and exporters.

Key Sector-wise Customs Duty Rate Changes

Healthcare

- Goods for rare diseases (as per NPRD 2021) imported for personal use have been fully exempted from Basic Customs Duty (BCD).

Impact: Reduces treatment costs and improves access to critical healthcare solutions.

Energy

- Sodium ion batteries for solar glass: BCD reduced from 7.5% to Nil.
- Batteries for stationary energy storage: Fully exempt from BCD.

Impact: Supports renewable energy adoption and lowers costs for clean energy infrastructure.

Personal Imports

- Duty on personal imports reduced from 20% to 10%.

Impact: Lowers the tax burden on individuals importing goods for personal use.

Defence & Aviation

- Raw materials for aircraft parts (MRO – Defence PSUs): Exempt from BCD.
- Aircraft components and parts: Exempt from BCD.
- Components and raw materials used in aircraft manufacturing and MRO: Exempt from BCD.

Impact: Strengthens domestic defence manufacturing, boosts MRO competitiveness, and supports the 'Make in India' initiative.

Nuclear Power

- Goods required for setting up nuclear power projects (any capacity): Fully exempt from BCD.

Impact: Encourages investment in nuclear energy projects and strengthens long-term energy security.

Export-Oriented Sectors (Textiles, Leather, Footwear, Seafood Processing)

- Duty-free import limit for specified inputs used in seafood processing increased from 1% to 3% of FOB export value of the previous year.
- Duty-free imports extended to shoe uppers in addition to leather or synthetic footwear exports.
- Time limit for export of final products extended from 6 months to 1 year for exporters of leather, textile garments, leather goods, and synthetic footwear.

Impact: Improves liquidity, working capital efficiency, and export competitiveness.

Trusted Importers / Supply Chains

- Regular importers with trusted, long-standing supply chains to be recognised under a risk-based framework.

Impact: Faster clearances, reduced inspections, and smoother cross-border trade.

How Budget 2026-27 Encourages Foreign Direct Investment (FDI)

Manufacturing – Toll & Contract Manufacturing

- A 5-year income tax exemption has been introduced for non-resident entities providing capital goods, equipment, or tooling to toll manufacturers in bonded zones.

FDI Benefit: Encourages asset-light manufacturing models and enables global OEMs to shift production to India without heavy capex commitments.

Electronics & High-Tech Manufacturing

- Under India Semiconductor Mission 2.0 and the Electronics Components Manufacturing Scheme, exemptions on inputs have been provided.

FDI Benefit: Strong push to attract global semiconductor, electronics, and component manufacturers to India.

Bonded Warehousing

- Expansion of safe harbour provisions for non-resident component warehousing in bonded warehouses.

FDI Benefit: Provides tax certainty and supports India's positioning as a logistics, trading, and supply-chain hub.

Customs & Trade Facilitation

- Deferred duty payment windows have been introduced for trusted manufacturers, along with risk-based recognition of trusted importers.

FDI Benefit: Improves cash flow, reduces friction, and strengthens supply-chain efficiency for multinational companies.

Data Centres & Cloud Services

- Provision of cloud services through India-based data centres, with a safe harbour margin of 15% on cost.

FDI Benefit: Acts as a long-term incentive for hyperscalers and global digital service providers to expand operations in India.

Global Talent Mobility

- Exemption of foreign-sourced income for non-resident experts for up to 5 years under notified schemes.

FDI Benefit: Encourages multinational companies to deploy senior leadership and technical experts in India.

SEZ Reforms

- Introduction of a one-time concessional duty window allowing SEZ units to sell into the Domestic Tariff Area (DTA).

FDI Benefit: Improves commercial viability and liquidity for SEZ-based foreign investors.

Energy & Sustainability

- BCD exemptions for glass inputs, electric vehicles (EVs), solar glass, and incentives for critical minerals.

FDI Benefit: Attracts foreign investment into clean energy, EV supply chains, and strategic minerals.

Ease of Doing Business

- Introduction of automated approvals and longer validity of advance rulings (5 years).

FDI Benefit: Improves predictability, reduces regulatory friction, and enhances investor confidence.

Services Sector (IT / ITES)

- Introduction of a unified safe harbour margin of 15.5%, increase in turnover threshold from ₹300 crore to ₹2,000 crore, and fast-track APAs.

FDI Benefit: Reduces transfer pricing risk and litigation exposure for foreign IT/ITES MNCs and GCCs.

Capital Markets Access

- Permission for PROIs (Persons Resident Outside India) to invest directly in listed Indian equities.

FDI Benefit: Broadens foreign portfolio investment access and deepens Indian capital markets.

Infrastructure Expansion

- Large-scale investments across ports, roads, waterways, REITs, and InvITs.

FDI Benefit: Improves logistics efficiency and lowers operating costs for foreign manufacturers and exporters.

Financial Sector Reforms

- Revised FEMA rules for Non-Debt Instruments (NDIs) and introduction of a market-making framework for bonds.

FDI Benefit: Signals regulatory modernization and greater openness to foreign capital.

Legal & Tax Certainty

- Immunity provided for small foreign asset non-disclosure cases.

FDI Benefit: Reduces fear of prosecution and improves trust in India's tax and legal framework.

IMPACT ON EMPLOYEES OF FOREIGN COMPANIES

The Budget significantly improves tax certainty, take-home pay predictability, mobility flexibility, and compliance comfort for expatriates, visiting professionals, and cross-border assignees.

Tax Relief for Visiting Foreign Professionals

Policy Change

- Exemption of foreign-sourced income for up to 5 years for first-time visiting non-resident professionals under notified government schemes
- Eligibility requires non-resident status for 5 years prior to first visit
- Applies for 5 consecutive tax years
- Applicable to employees of foreign companies

What it Means for Employees

- Foreign professionals remain taxable in India only on India-sourced income
- Avoids double taxation on overseas salary, bonuses, and ESOPs
- Encourages longer-term assignments without triggering worldwide income taxation
- Provides long-term certainty for expatriates and global talent

Reduced Cash-Flow Impact on Foreign Spend

Policy Change

- TCS on overseas tour packages reduced to 5% (from 20%)
- TCS and LRS for education and medical expenses reduced from 5% to 2%

Employee Benefit

- Lower upfront tax outflow on international travel, education, and healthcare
- Improved cash flow for employees funding overseas education or medical treatment
- Reduced reliance on refund cycles

Easier Foreign Asset Compliance for Returning Expats

Policy Change

- Retrospective immunity (from 1 October 2024) for non-disclosure of small foreign assets
- Applies to foreign assets (excluding immovable property) valued below ₹20 lakh
- Introduction of a fast-track one-time foreign asset disclosure scheme
- Simplified compliance framework

Employee Impact

- Protects employees from prosecution for inadvertent non-disclosures
- Allows regularisation of overseas accounts or investments without penalties or criminal exposure
- Particularly beneficial for returning NRIs and relocating expatriates

Simplified Tax Deduction & Filing for Employees

Policy Change

- TDS on non-resident property sales deducted by buyer's PAN (not TAN)
- Simplified deduction mechanism under Section 194-IA
- Reduced documentation and procedural steps

Better Employee Experience

- Faster and simpler transactions for expatriates selling Indian property
- Reduced paperwork and compliance stress
- More predictable tax outcomes

Decriminalisation & Reduced Litigation Exposure

Policy Change

- Decriminalisation of procedural lapses (e.g., non-production of documents)
- Immunity framework for under-reporting / voluntary corrections
- Shift from punitive enforcement to corrective compliance

Employee Protection

- Employees and directors face lower prosecution risk for minor or technical errors
- Encourages voluntary correction without fear
- Improves overall confidence in the Indian tax system

Overall Employee Impact

- Reduced personal tax risk for expatriates
- Higher take-home predictability
- Easier mobility for global professionals
- Lower compliance anxiety
- Stronger confidence in India as a long-term work destination

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