

INDIAN UNION BUDGET 2026-27

*Empowering Growth, Enabling Aspirations,
Ensuring Inclusion*



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CHARTERED ACCOUNTANTS
Transforming Knowledge into Values



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Foreword

The Union Budget 2026–27 reflects India’s continued commitment to balanced growth, fiscal responsibility, and global integration at a time when global economic conditions remain dynamic and challenging. The Government’s focus on infrastructure development, regulatory simplification, digital governance, and long-term investment incentives demonstrates a clear intent to strengthen India’s economic foundations.

At HCO & Co., we view this Budget as an important opportunity for businesses to realign their strategies in line with evolving policy priorities. The introduction of the New Income Tax Act, rationalisation of compliance frameworks, and targeted incentives for global enterprises will require thoughtful planning and timely action from stakeholders.

With over seven decades of professional legacy, our firm has consistently supported clients through periods of regulatory transition and economic transformation. We remain dedicated to providing practical, forward-looking, and reliable advisory services grounded in technical excellence, ethical standards, and deep client understanding.

This booklet has been prepared to assist our clients in understanding the key provisions of the Union Budget 2026–27 and their implications across taxation, trade, and investment. We trust that this publication will serve as a valuable reference in decision-making and compliance planning.

We thank our clients for their continued trust and confidence and assure them of our unwavering support in navigating the changing regulatory landscape.



Executive Summary

The Union Budget 2026–27 represents a significant step in India's continued journey towards sustainable economic growth, fiscal prudence, and enhanced global competitiveness. Anchored around the three guiding principles of accelerating economic growth, building human capacity, and ensuring inclusive development, the Budget reflects a balanced and forward-looking policy approach. With public capital expenditure increased to ₹12.2 lakh crore and the fiscal deficit targeted at 4.3% of GDP, the Government has reaffirmed its commitment to infrastructure-led development while maintaining macroeconomic stability. These measures are expected to stimulate private investment, strengthen supply chains, and support long-term productivity.

A major structural reform announced in the Budget is the implementation of the New Income Tax Act, 2025, from April 2026. The new legislation aims to simplify tax provisions, enhance compliance efficiency, and reduce litigation. Complemented by rationalisation of penalty provisions, automation of compliance processes, and targeted relief measures, the direct tax framework is being repositioned towards greater certainty and transparency.

In the area of international taxation, the Budget introduces enhanced safe harbour regimes, accelerated Advance Pricing Agreement procedures, and targeted incentives for digital infrastructure, logistics, and manufacturing. These reforms are designed to improve India's attractiveness as a destination for multinational enterprises and global capital.

On the indirect tax front, customs duty rationalisation, export facilitation measures, and trade digitisation initiatives seek to reduce transaction costs and improve ease of doing business. The focus on customs automation, bonded warehousing reforms, and passenger facilitation further strengthens India's integration with global trade networks.

Sector-specific initiatives in information technology, manufacturing, pharmaceuticals, energy, logistics, and financial services demonstrate the Government's intent to support high-growth and strategically important industries. Combined with human capital development, skill enhancement, and regional development programmes, these measures aim to create a resilient and inclusive economic ecosystem.

Overall, Union Budget 2026–27 reflects continuity in reforms, policy stability, and a strong emphasis on long-term value creation. Businesses and investors are encouraged to proactively assess the implications of these measures, realign their operational and compliance frameworks, and leverage emerging opportunities.

Fiscal and Macroeconomic Overview

Over the past few years, India's fiscal policy has focused on supporting post-pandemic recovery, strengthening public infrastructure, and gradually reducing fiscal deficits. While capital expenditure witnessed steady growth, revenue mobilisation and debt management remained key policy priorities in a challenging global environment marked by inflationary pressures and geopolitical uncertainties.

Budget 2026–27 Amendment

In Union Budget 2026–27, the fiscal deficit has been targeted at 4.3% of GDP, compared to 4.4% in the previous year. Public capital expenditure has been enhanced to ₹12.2 lakh crore, reflecting the Government's continued emphasis on infrastructure-led growth. Net tax receipts are estimated at ₹28.7 lakh crore, while total expenditure is projected at ₹53.5 lakh crore. The debt-to-GDP ratio is expected to moderate to 55.6%, indicating progress towards medium-term fiscal consolidation.

The Government has also outlined a balanced borrowing programme, with net market borrowings estimated at ₹11.7 lakh crore, aimed at meeting funding requirements without exerting excessive pressure on interest rates.

Implications

The Budget's fiscal framework demonstrates a calibrated approach towards growth and stability. Higher capital expenditure is expected to crowd in private investment, improve logistics and connectivity, and enhance productive capacity. At the same time, controlled deficits and prudent borrowing support macroeconomic stability and investor confidence.

For businesses, this policy environment indicates continued Government support for infrastructure, manufacturing, and urban development. Stable fiscal management also contributes to predictable interest rate movements and improved access to long-term financing.

HCO Strategic Perspective

From a strategic standpoint, the emphasis on capital formation and fiscal discipline provides a favourable backdrop for medium- and long-term business planning. Clients should align expansion, financing, and investment strategies with infrastructure development programmes and emerging regional growth corridors. Monitoring fiscal trends and policy signals will remain important for effective capital allocation and risk management.

Direct Tax Proposals

Implementation of the New Income Tax Act, 2025

Direct Taxation was governed by the Income-tax Act, 1961, which had evolved through numerous amendments, circulars, and judicial precedents. This resulted in interpretational complexity, uncertainty, and increased litigation.

The New Income Tax Act, 2025, will be implemented from April 2026 with reorganised provisions, simplified statutory language, and redesigned compliance forms supported by digital systems.

Taxpayers must prepare for structural changes in computation, reporting, and documentation. Existing tax positions, exemptions, and deductions may require reassessment under the new framework.



Direct Tax Proposals

TCS on Overseas Remittances

TCS rates ranged from 5% to 20% on overseas remittances and tour packages, leading to significant working capital blockage and refund dependency.

Budget Amendment

A uniform TCS rate of 2% has been introduced for overseas tour packages and eligible LRS remittances.

Implications

The rationalisation improves cash flows and reduces administrative burden. Businesses should revise internal travel and remittance policies accordingly.

TDS on Manpower Supply

Ambiguity existed regarding classification under Sections 194C and 194J, resulting in inconsistent deduction practices and frequent assessments.

Budget Amendment

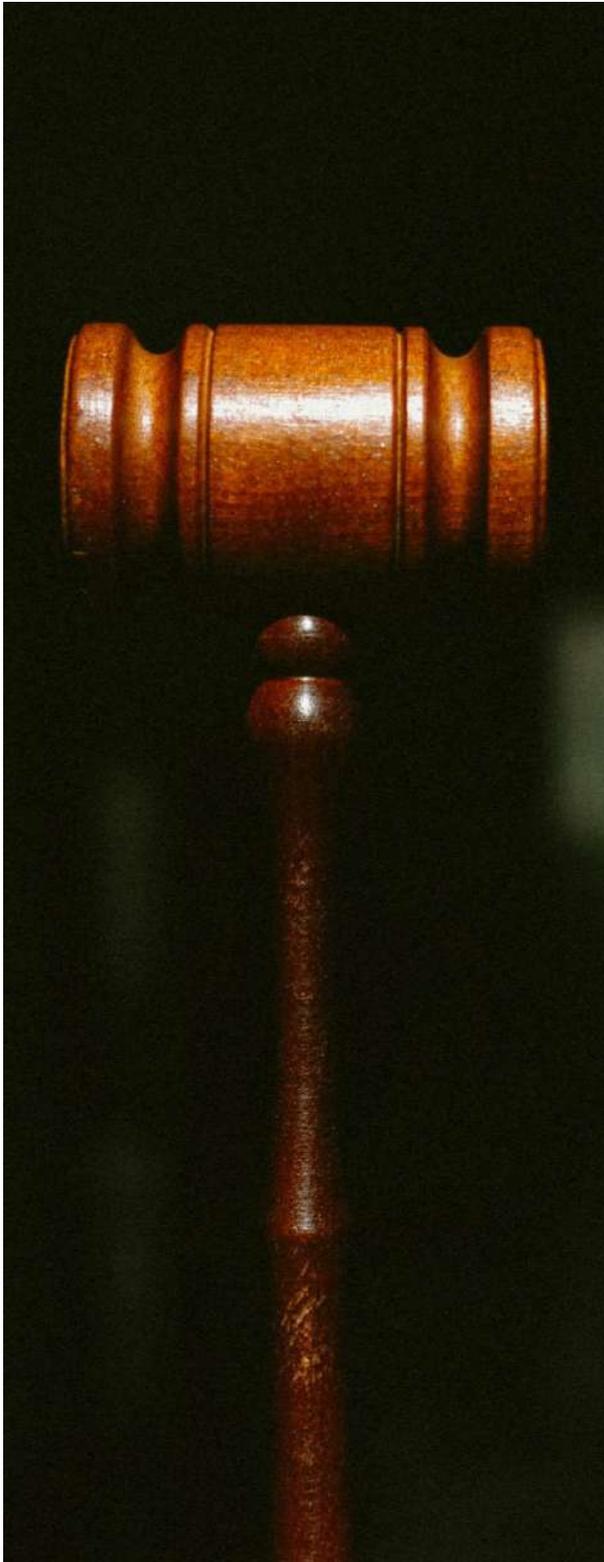
Manpower supply services are now classified under contractor provisions with standard TDS rates.

Implications

This brings clarity for labour-intensive sectors and reduces exposure to interest and penalty risks.



Direct Tax Proposals



Return Filing, Revision, and Compliance Automation

Return revision was allowed till 31 December, and lower/nil deduction certificates required manual applications.

Budget Amendment

Revision timeline extended till 31 March and automated mechanisms introduced for lower/nil TDS certificates and single-window filings.

Implications

Enhanced automation will improve compliance efficiency and reduce human interface. Taxpayers should strengthen internal reconciliation processes.

Penalty and Prosecution Reforms

Separate assessment and penalty proceedings and high pre-deposit requirements contributed to prolonged litigation.

Budget Amendment

Integrated proceedings, reduced pre-deposit, expanded immunity, and decriminalisation of technical defaults have been introduced.

Implications

These reforms promote voluntary compliance and faster dispute resolution, benefiting compliant taxpayers.

Direct Tax Proposals

Minimum Alternate Tax (MAT)

MAT credit accumulated over time, leading to complex utilisation and long-term uncertainty.

Budget Amendment

MAT is made a final tax at 14% with restricted credit utilisation and no further accumulation.

Implications

Companies must reassess deferred tax assets, projections, and long-term tax strategies.

Foreign Asset Disclosure Scheme

Limited voluntary disclosure mechanisms were available, with severe penal consequences for non-compliance.

Budget Amendment

A one-time six-month disclosure window has been introduced for small overseas assets and income.

Implications

Eligible taxpayers should evaluate regularisation opportunities through structured disclosures.

HCO Strategic Perspective

The direct tax reforms reflect a decisive shift towards simplification, automation, and stability. Early transition planning, system upgrades, and policy reviews during FY 2025–26 will be critical for minimising compliance risks and optimising tax efficiency.

International Tax & Cross-border Provisions

Safe Harbour Regime for IT and IT-Enabled Services

The earlier safe harbour framework had multiple categories, lower thresholds, and limited continuity, which reduced adoption among mid and large enterprises.

Budget Amendment

A unified IT services category with a 15.5% margin, ₹2,000 crore threshold, automated approval, and five-year continuity has been introduced.

Implications

This significantly enhances transfer pricing certainty and facilitates long-term pricing stability for multinational groups.

Advance Pricing Agreement (APA) Framework

Extended processing timelines and limited coordination reduced the effectiveness of APAs as a dispute prevention tool.

Budget Amendment

The APA process has been fast-tracked with a two-year completion target and extended modified return facility.

Implications

APAs are expected to become a more viable long-term risk management mechanism for cross-border transactions.



International Tax & Cross-border Provisions



Cloud Service Providers and Data Centres

Foreign cloud and data centre operators were taxed under general provisions without sector-specific incentives.

Budget Amendment

Tax holiday till 2047 and safe harbour on related-party services have been introduced.

Implications

India's competitiveness as a global digital infrastructure hub is significantly strengthened.

Bonded Warehousing and Logistics Operations

Uncertainty regarding profit attribution and permanent establishment risks resulted in frequent disputes.

Budget Amendment

A fixed safe harbour margin of 2% of invoice value has been prescribed.

Implications

This promotes India as a regional warehousing and distribution centre.

International Tax & Cross-border Provisions

MAT Exemption for Non-Residents

Non-residents under presumptive taxation were subject to MAT, increasing compliance burden.

Budget Amendment

Complete MAT exemption has been granted for such non-residents.

Implications

Compliance costs are reduced and sectoral competitiveness is enhanced.

Tax Incentives for Non-Resident Experts

Foreign experts were largely taxed on global income during Indian assignments.

Budget Amendment

Five-year exemption on non-India sourced income under notified schemes.

Implications

This encourages inflow of specialised talent and technology transfer.



International Tax & Cross-border Provisions

Incentives for Toll Manufacturing and Supply Chains

No targeted tax exemptions were available for non-resident suppliers to toll manufacturers.

Budget Amendment

Five-year income tax exemption introduced for eligible non-residents.

Implications

Global manufacturing ecosystems are expected to strengthen in India.

HCO Strategic Perspective – International Tax

The international tax reforms emphasise certainty, competitiveness, and long-term investment stability. Multinational groups should realign transfer pricing models, evaluate incentive eligibility, and review cross-border structures to maximise benefits and manage risks.



Indirect Taxes & Customs

Customs Duty Rationalisation

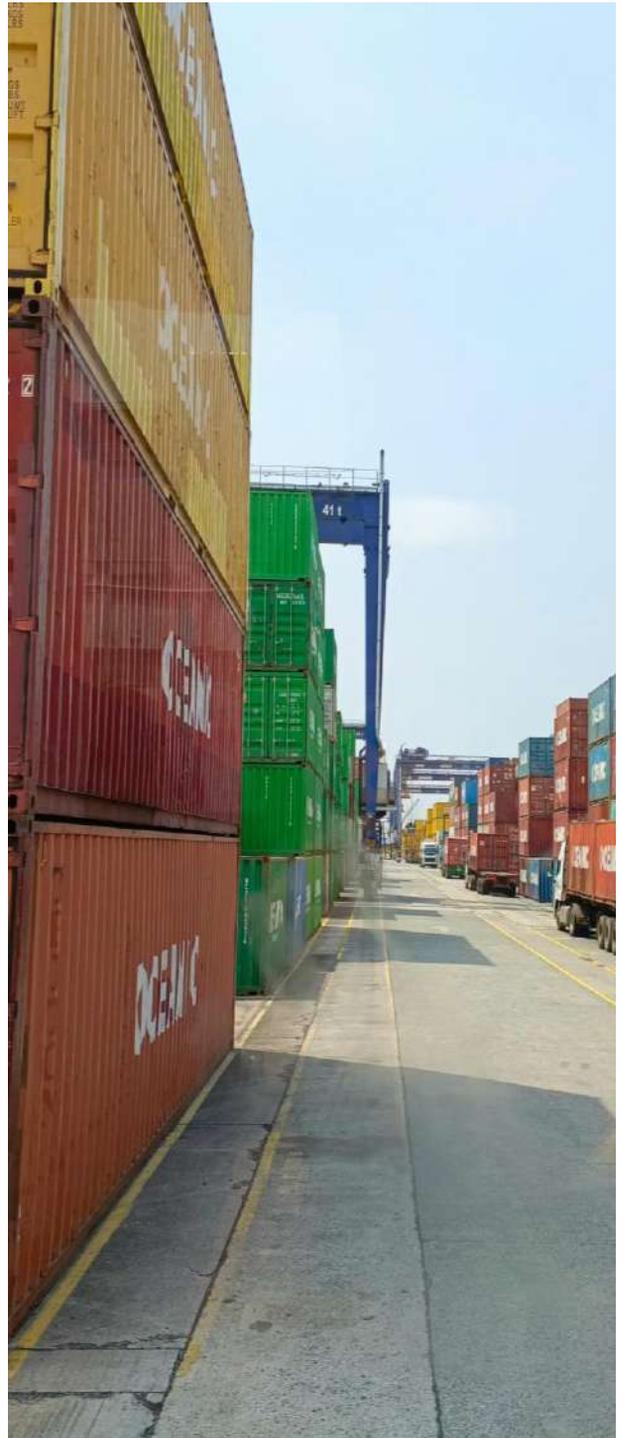
The customs tariff structure consisted of multiple exemptions, concessional rates, and inverted duty structures across sectors. While these measures supported certain industries, they also led to classification disputes, compliance complexity, and cost inefficiencies in supply chains.

Budget Amendment

The Budget has expanded exemptions and concessional duties for capital goods and inputs used in sectors such as lithium-ion batteries, critical minerals, pharmaceuticals, aviation, nuclear power, electronics, and renewable energy. Basic customs duty on several medicines and specialised equipment has also been exempted.

Implications

The rationalisation of customs duties is expected to reduce input costs, improve domestic value addition, and enhance the global competitiveness of Indian manufacturers. Importers and manufacturers should reassess their sourcing and costing structures in light of the revised duty regime.



Indirect Taxes & Customs

Export Promotion and SEZ Reforms

Supplies from Special Economic Zones (SEZs) to the Domestic Tariff Area (DTA) were subject to standard customs duties, limiting the commercial flexibility of SEZ units. Export incentives were also fragmented across schemes.

Budget Amendment

A special one-time concessional duty scheme has been introduced for eligible SEZ units supplying goods to the DTA, subject to prescribed limits. Additionally, courier export limits have been removed to support small exporters and e-commerce businesses.

Implications

These reforms enhance operational flexibility for SEZ units and improve market access for exporters. MSMEs and export-oriented units are expected to benefit from improved liquidity and wider domestic reach.

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Indirect Taxes & Customs

Warehousing and Bonded Operations

The customs warehousing framework was largely transaction-based, with significant documentation and manual monitoring requirements. This often restricted operational flexibility for logistics providers.

Budget Amendment

The warehousing framework has been transformed into an operator-centric system with self-declarations, electronic tracking, and risk-based audits.

Implications

The new framework encourages efficient inventory management, promotes regional distribution hubs, and supports global supply chain integration. Logistics and trading companies should evaluate opportunities for expanding bonded operations.

Customs Processes and Trade Facilitation

Customs clearance procedures involved multiple approvals, physical interventions, and fragmented digital systems. This resulted in delays, higher logistics costs, and uncertainty in cargo movement.

Budget Amendment

The Government has introduced an interconnected digital window for cargo clearances, expanded Authorised Economic Operator (AEO) benefits, extended duty deferral periods, and proposed rollout of the Customs Integrated System (CIS). Non-intrusive scanning and AI-based risk assessment have also been strengthened.

Implications

These measures are expected to significantly reduce clearance time, improve predictability, and lower transaction costs. Businesses engaged in import-export operations should align internal documentation and compliance systems with the enhanced digital framework.



Indirect Taxes & Customs

Ease of Living and Passenger Facilitation

Personal imports and baggage clearances were governed by outdated thresholds and procedural requirements, leading to inconvenience for international travelers and frequent disputes.

Budget Amendment

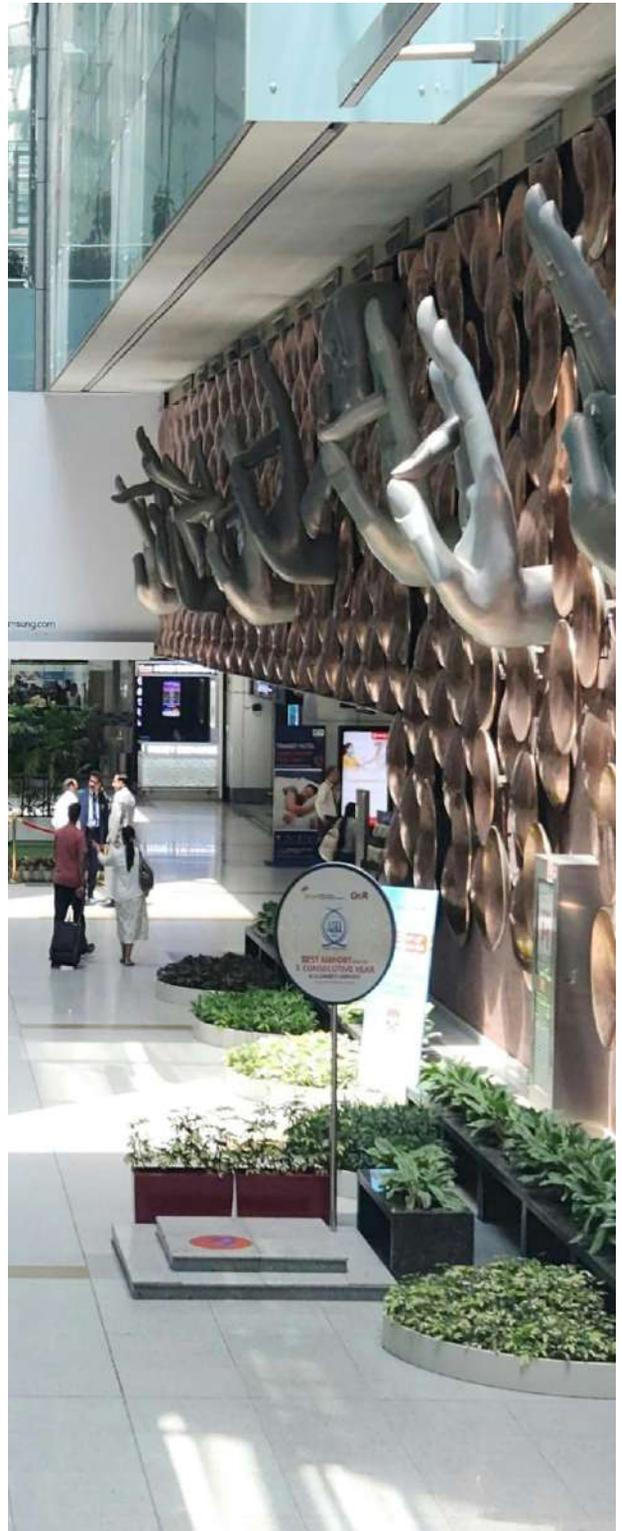
Tariff rates on personal imports have been reduced from 20% to 10%, and revised baggage rules have been proposed to enhance duty-free allowances in line with current travel patterns. Additional medicines for rare diseases have been exempted.

Implications

These reforms improve passenger convenience, reduce disputes at ports of entry, and align customs practices with global standards.

HCO Strategic Perspective – Indirect Taxes

The indirect tax reforms in Union Budget 2026–27 focus on tariff rationalisation, trade facilitation, and digital governance. Businesses should undertake a comprehensive review of their import-export structures, warehousing arrangements, and compliance systems to leverage cost efficiencies and minimise regulatory risks. Strategic alignment with customs facilitation schemes will be critical for enhancing supply chain resilience and operational competitiveness.



Sectoral Impact

IT and Digital Services

The IT and digital services sector benefits from enhanced transfer pricing certainty through revised safe harbour norms, streamlined APA processes, and incentives for cloud infrastructure. These measures strengthen India's positioning as a global technology and outsourcing hub.

Manufacturing and Infrastructure

Manufacturing and infrastructure sectors are supported through increased public capital expenditure, customs duty rationalisation, and incentives for advanced manufacturing. These initiatives are expected to strengthen domestic supply chains and improve cost competitiveness.

Pharmaceuticals and Biotech

The sector benefits from duty exemptions on critical inputs, policy focus on biopharma development, and support for research and clinical trials. These measures enhance India's attractiveness as a global pharmaceutical manufacturing base.

Energy and Sustainability

Energy and sustainability initiatives focus on critical minerals, battery manufacturing, and renewable technologies. These reforms support India's transition towards cleaner and more resilient energy systems.

Logistics, Trade, and Supply Chains

Customs facilitation measures, bonded warehousing incentives, and digital clearance systems strengthen India's role as a regional logistics hub and improve supply chain efficiency.

Financial Services and Investment

Fiscal consolidation, regulatory reforms, and improved ease of doing business enhance investor confidence and support long-term capital formation.

HCO Strategic Outlook

Union Budget 2026–27 reflects continuity in economic reforms, policy stability, and a strong emphasis on long-term value creation. The Government's focus on infrastructure development, regulatory simplification, digital governance, and global integration provides a supportive environment for sustainable business growth.

From a strategic perspective, the transition to the New Income Tax Act, enhanced automation of compliance systems, and rationalisation of dispute resolution mechanisms mark a structural shift in India's tax and regulatory framework. Businesses will need to adapt their internal processes, documentation standards, and governance models to remain aligned with these changes.

The strengthening of international tax certainty, trade facilitation measures, and targeted incentives for digital infrastructure and manufacturing are expected to improve India's attractiveness as a destination for global capital and technology. Multinational enterprises and export-oriented businesses should proactively reassess their operating models and supply chains to leverage these opportunities.

In the medium to long term, continued public investment in transportation, logistics, energy, and urban infrastructure is likely to create new growth corridors and regional business hubs. Organisations that align their expansion strategies with these developments will be better positioned to achieve sustainable competitiveness.

In this evolving environment, proactive planning, timely compliance, and informed decision-making will be critical. Clients are encouraged to undertake periodic reviews of tax positions, risk exposures, and regulatory obligations to ensure resilience and operational efficiency.

HCO remains committed to supporting clients through customised advisory, compliance support, transaction structuring, and implementation assistance. Our integrated approach combines technical expertise with practical business understanding, enabling clients to navigate regulatory transitions with confidence and clarity.

We look forward to continuing our long-standing partnership with our clients and contributing to their growth and success in the years ahead.

Disclaimer

This booklet is intended for general guidance only and does not constitute professional advice. The analysis is based on information available at the time of publication. Specific advice should be sought before acting on any matter.

HCO ProTax Assist – Our latest AI-powered personal Tax Tool

We are proud to announce the launch of **HCO ProTax Assist** — an AI-powered personal tax calculator developed in-house by the HCO & Co. team.

Rooted in decades of professional excellence and strengthened by intelligent automation, this platform is designed to make income tax computation simple, accurate, and transparent for individuals.

The tool is completely free and enables users to calculate their personal income tax in less than 2 minutes, making tax planning quick, convenient, and reliable.

Our continued commitment to blending traditional values with modern technology has been recognised by *The Economic Times*, with HCO being featured as an AI Innovator and nominated for the **ET AI Awards 2025** in the category of AI in Finance & HR Excellence.

 **View our official recognition:**

<https://economictimes.indiatimes.com/aiinnovator/profile/hco/125402172>

 **Explore ProTax Assist:**

<https://protax.hco.ca.com>

We remain dedicated to building trusted solutions that empower taxpayers and strengthen compliance in an evolving digital economy.



About HCO & Co.

HCO & Co. (HCO) is a leading professional services firm providing comprehensive audit, assurance, tax, financial advisory, and consulting services in India since 1962. With more than six decades of professional experience, the firm has built a strong reputation for technical excellence, integrity, and client-focused service delivery. HCO has a wide presence across India through its network of offices and affiliate members, enabling it to serve clients efficiently across diverse industries and regions.

At the international level, HCO is represented through Antea – Alliance of Independent Firms, a global association of leading professional services firms with offices in more than 80 countries. Through this network, HCO provides seamless cross-border advisory, compliance, and transaction support to multinational enterprises, overseas investors, and Indian businesses expanding globally.

Let's talk

For a deeper discussion of how this budget might affect your business drop an email at info@hcoca.com

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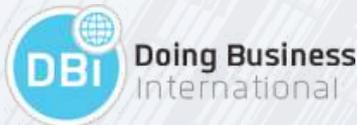
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