

CHASE ADVISORS

A We. Communications Company

# UNION BUDGET ANALYSIS

2026



# Modi's New Economy Doctrine

Budget 2026 marks a pivotal moment, signaling a profound strategic shift in India's economic trajectory amidst an era of unprecedented global uncertainty. Navigating intensifying US-China trade tensions, complex geopolitical realignments, and persistent supply chain vulnerabilities, the global landscape is further complicated by rising protectionism, economic nationalism, and the ongoing restructuring of economies in the post-pandemic world. Furthermore, the strategic implications of "Operation Sindoor" have reinforced India's strategic calculus, making a proactive and resilient economic policy imperative.

This budget deepens India's commitment to the 'Atmanirbhar Bharat' (Self-Reliant India) vision, evolving it from aspirational to urgent. It targets key sectors for indigenous capability building, balancing this drive for self-reliance with a pragmatic approach to global integration.

Simultaneously, the focus shifts to innovation as the primary engine for growth, moving beyond cost-based competitiveness. The government is actively de-risking R&D investments, particularly in critical emerging technologies like AI, semiconductors, and biotechnology, to cultivate a robust ecosystem for startups and deep-tech ventures.

Ultimately, Budget 2026 positions India for the next decade by intertwining economic security with national security. It aims to build formidable resilience against external shocks and solidify India's ambition to be a rule-maker, rather than merely a rule-taker, in the global economic order.

This is a fiscal blueprint with clear strategic intent of India's intent to forge a new, self-assured economic identity on the world stage.



STRATEGIC VISION

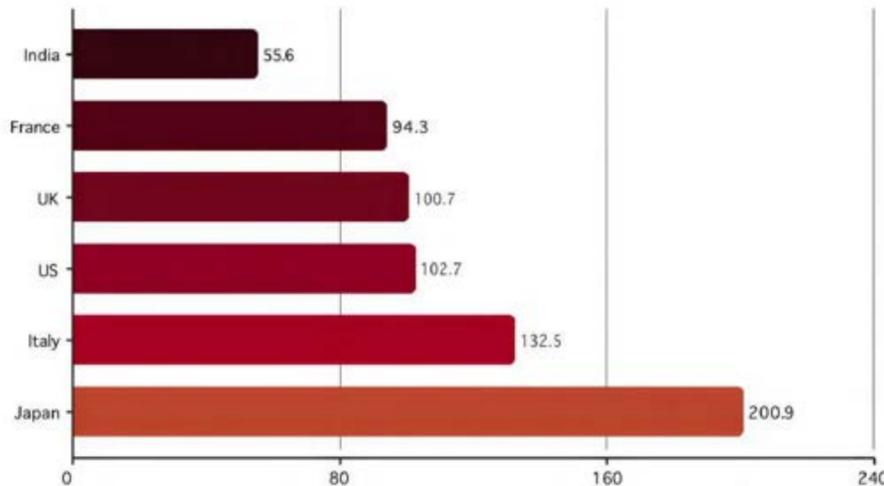
## NEW ECONOMY DOCTRINE

Nine months after Operation Sindoor fundamentally changed India's strategic and economic environment, PM Narendra Modi's government presents a Budget for 2026-27 that carries forward the momentum of reforms with a concerted push for a 'Naya Economy.'

Finance Minister Nirmala Sitharaman's ninth consecutive Budget pegs government spending at Rs 53 lakh crore—roughly \$600 billion—representing Rs 4 lakh crore more than last year.

<p><b>Semiconductors</b></p> <p>Full-stack Indian IP development</p>	<p><b>Critical Minerals</b></p> <p>Rare earth corridors in four states</p>
<p><b>Electronics</b></p> <p>Rs 40,000 crore PLI boost</p>	<p><b>Biopharma</b></p> <p>Rs 10,000 crore SHAKTI program</p>

## Fiscal Discipline Meets Ambitious Growth



### Staying Within the Blanket

If there has been one consistent theme in PM Modi's economic doctrine over 12 years, it's keeping expenses aligned with earnings. The fiscal deficit has been consolidated to 4.3%, down from 4.4% last year.

India's debt-to-GDP ratio stands at 55.6% — lower than many advanced economies. The government targets reducing this to 50% by 2031, signaling commitment to fiscal prudence with clearly defined medium-term goals.

## Infrastructure: The Economic Multiplier

**12.2L**

### Capital Expenditure

Rs 12.22 lakh crore capex—8.9% increase, the biggest hike ever

**17L**

### Market Borrowings

Rs 17 lakh crore gross borrowings without fiscal slippage

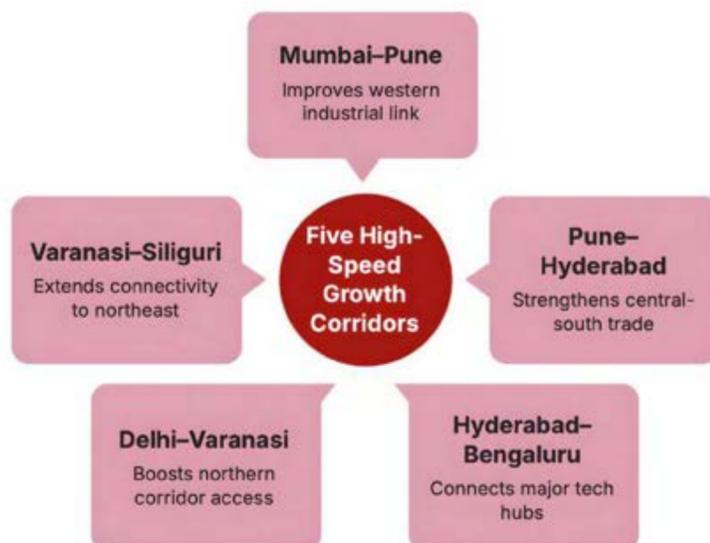
**10K**

### Port & Rail Connectivity

Rs 10,000 crore capital outlay over five years

The government continues heavy lifting on investment with capital expenditure increasing from Rs 7.5 lakh crore in 2022-23 to Rs 12.2 lakh crore in 2026-27. This front-loading strategy aims to accelerate infrastructure development and trigger private investment—the "crowding in" phenomenon.

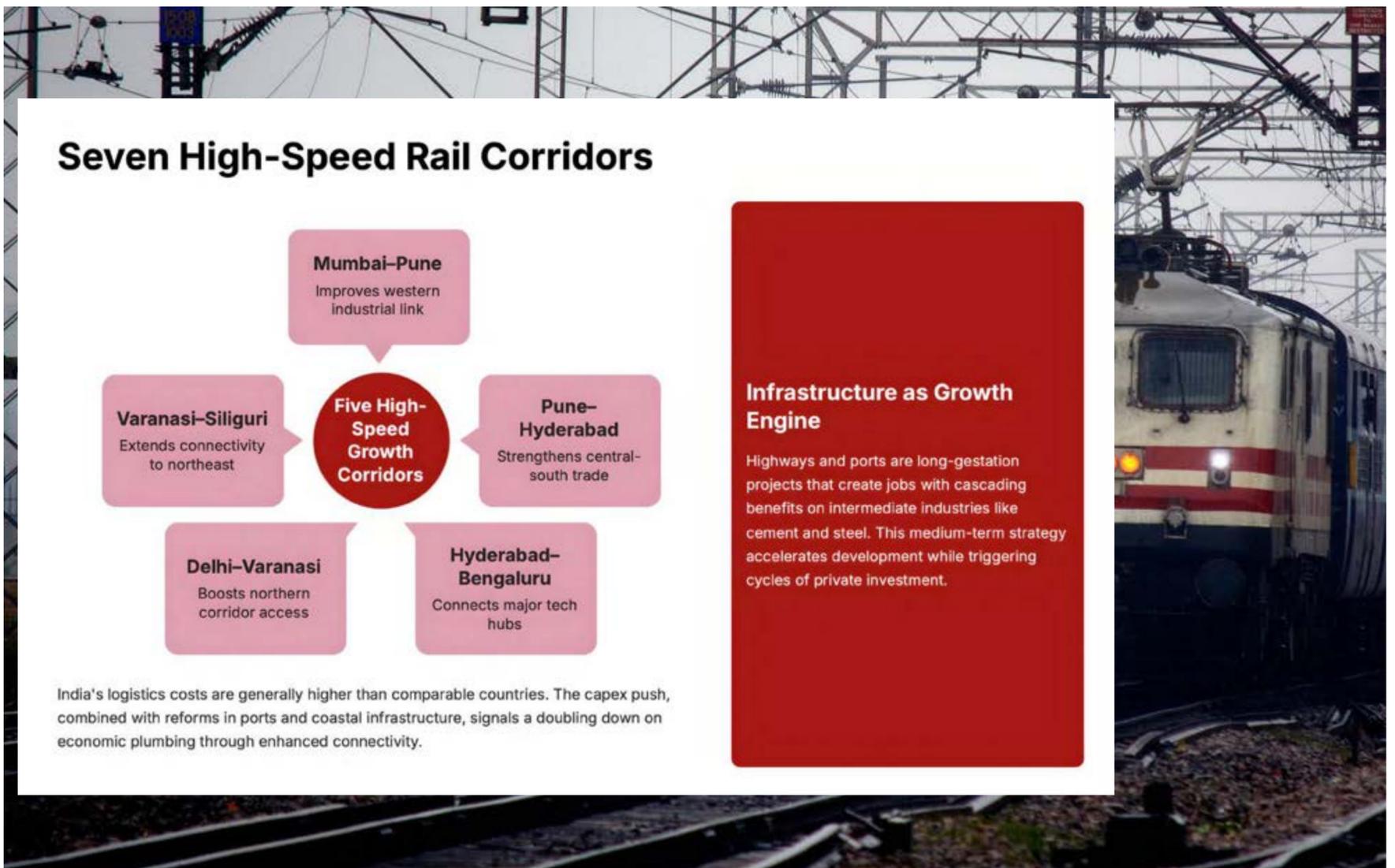
## Seven High-Speed Rail Corridors



India's logistics costs are generally higher than comparable countries. The capex push, combined with reforms in ports and coastal infrastructure, signals a doubling down on economic plumbing through enhanced connectivity.

### Infrastructure as Growth Engine

Highways and ports are long-gestation projects that create jobs with cascading benefits on intermediate industries like cement and steel. This medium-term strategy accelerates development while triggering cycles of private investment.



DEFENCE INNOVATION

# Military-Industrial Complex Gets a Boost

## 17% Defence Capex Increase

With Operation Sindoor ongoing, a period characterized by heightened geopolitical tensions and critical security challenges, emergency spending on defence equipment has become a necessity in recent months. This strategic imperative naturally led to an expected surge in defence expenditures. Consequently, defence capital expenditure (capex) spending has seen a significant 17% increase compared to last year's revised estimates.

This substantial increase translates to a robust financial allocation aimed at modernizing India's armed forces and enhancing its indigenous defence capabilities. Priority areas for this investment include the rapid development and deployment of advanced drones, fostering indigenous manufacturing of critical components and systems, and strengthening technology partnerships with both domestic and international entities to accelerate innovation and technology transfer.

### Fostering the Military-Industrial Complex

This increased allocation provides a major fillip for India's emerging military-industrial complex, creating a fertile ground for growth and innovation. Significant movement is anticipated in the drone sector, offering specific opportunities for manufacturers specializing in unmanned aerial vehicles (UAVs) for surveillance, combat, and logistics. Defence technology startups are poised to benefit from R&D grants, procurement contracts, and an ecosystem supportive of cutting-edge solutions.

Furthermore, this encourages synergistic collaborations between agile smaller companies, which bring specialized expertise and rapid innovation, and larger, established defence firms. These partnerships are crucial for developing integrated systems and expanding production capacities. The government's unwavering support for indigenous defence production, epitomized by initiatives like "Make in India for Defence," aims to reduce import dependence, boost local manufacturing, and create a self-reliant defence industrial base.

### Economic Spillover Effects

Historically, significant shifts and investments in defence industries have had profound knock-on positive impacts on wider economies, often catalyzing technological advancements that eventually find widespread civilian application. A prime example is GPS, which was initially developed for military navigation before transforming global transportation and communication.

Other transformative technologies that originated from military research include the Internet (ARPANET), which laid the foundation for global digital communication; microwave technology, essential for radar systems but now ubiquitous in ovens and telecommunications; jet engines, initially designed for military aircraft but now powering civilian air travel; and advanced materials and composites, developed for military vehicles and aerospace, which now feature prominently in industries from automotive to sports equipment.

### Future Outlook: Exports and Leadership

This strategic push in defence spending and indigenous development positions India not only for enhanced national security but also for significant export opportunities in the global defence market. By fostering a strong, innovative military-industrial complex, India aims to transition from a major defence importer to a significant exporter of advanced defence technologies and systems. This trajectory is designed to solidify India's reputation as a reliable and technologically advanced partner, ultimately contributing to its technological leadership on the international stage.



# Business-Friendly Reforms



### Tax Holiday for Data Centers

Tax holiday until 2027 for foreign companies providing cloud services globally using Indian data centers. Following major investments by Google (\$15B), Amazon (\$35B), and Microsoft (\$17.5B) in GCCs.



### SEZ Flexibility

Companies in special economic zones can now sell surplus products in domestic markets at concessional tariffs, giving exporters additional options amid global pressure.



### Electronics PLI Expansion

Additional Rs 40,000 crore PLI for electronics, capitalizing on the success of production-linked incentives in smartphones and electronics manufacturing across 16 sectors.



## AI and Hi-Tech: India's Growth Tower

1	2	3
<p><b>Biopharma SHAKTI</b></p> <p>Rs 10,000 crore over 5 years to build ecosystem for domestic biologics and biosimilars production</p>	<p><b>ISM 2.0 Launch</b></p> <p>Indian Semiconductor Mission 2.0 to produce equipment towards a full-stack domestic semiconductor ecosystem</p>	<p><b>Rare Earth Corridors</b></p> <p>Support for Odisha, Kerala, Andhra Pradesh, Tamil Nadu to establish dedicated corridors for mining and manufacturing</p>

### Positioning as Global Leader

Finance Minister has clearly articulated the Modi government's unwavering commitment to placing AI and hi-tech at the core of India's medium-term growth strategy. As the world's fastest-growing major economy with the largest and youngest population, India possesses a significant demographic advantage, marked by a tech-savvy youth ready to contribute to and benefit from digital transformation. This, coupled with its established prowess as a global leader in IT services, provides a robust foundation for embracing the AI revolution and capitalizing on the immense global AI market opportunity.

Sitharaman emphasized, "Cutting-edge technologies, including AI applications, can serve as force multipliers for better governance." This vision extends to concrete applications across critical public services. AI is being harnessed to revolutionize healthcare diagnostics, making advanced medical insights accessible even in remote areas, and to personalize education, tailoring learning paths to individual student needs. Furthermore, AI plays a pivotal role in the development of smart city infrastructure, optimizing traffic management, and enhancing public safety. In the agricultural sector, AI-powered advisory systems and crop monitoring tools are empowering farmers with data-driven decisions, while AI-powered credit assessment models are driving financial inclusion for underserved populations.

Reflecting on the nation's future, the Finance Minister declared, "India will continue to take confident steps towards Viksit Bharat, balancing ambition with inclusion." In the context of AI, the 'Viksit Bharat' (Developed India) vision by 2047 means leveraging technology to build a prosperous and equitable society. AI is seen as a crucial tool to bridge the urban-rural divide, ensuring that technological advancements benefit every citizen, regardless of their location, while meticulously balancing rapid technological advancement with social equity and ethical considerations.

India's competitive advantages are manifold, including a vast pool of cost-effective AI development talent, a large and diverse domestic market that serves as an ideal testing ground for scalable AI solutions, and a government committed to fostering innovation through supportive policy frameworks. These elements position India not merely as a consumer of global AI innovations, but as a formidable AI innovator and exporter, set to contribute significantly to the global AI landscape.



## Consumer-Focused Measures

These recent measures signal the government's acute responsiveness to the evolving concerns of India's vibrant middle class and the needs of the global Indian diaspora. In a period marked by a weakening rupee and escalating international costs for essential services, these adjustments aim to alleviate financial burdens and foster stronger connections with citizens living and engaging abroad.

### Import Duty Relief

The government has notably reduced import duties on a range of goods brought into India for personal use by half. This move is particularly significant for the Indian diaspora returning home, as well as frequent international travelers and those receiving gifts from abroad. Previously, high duties on items like high-end electronics (smartphones, laptops, cameras), luxury accessories (watches, designer handbags), and even certain household goods often made bringing these items into the country financially unfeasible or significantly more expensive.

For instance, an item valued at \$1,000 might have incurred a duty of \$250 (25%), which is now reduced to \$125 (12.5%), representing an estimated saving of \$125 for the consumer. This policy directly benefits global Indians who wish to bring goods back for personal enjoyment or as gifts for family, acknowledging their economic contribution and fostering a sense of connection. It is expected to encourage more cross-border shopping, making high-quality international products more accessible and affordable for the Indian consumer base, potentially influencing local purchasing patterns.

### Education Support (TCS Reduction)

In a crucial relief for thousands of families, the Tax Collected at Source (TCS) on overseas education remittances has been reduced from 5% to 2%. TCS is an advance tax collected by banks on certain transactions, which can be claimed back later. However, it ties up capital, making it an upfront financial burden. This adjustment comes at a critical time, as the weakening Indian rupee had already pushed up the cost of studying abroad by an estimated 10-15% for Indian families, making higher education in international universities increasingly challenging.

Consider a family sending their child to a university with an annual tuition and living cost of \$50,000 (approx. Rs 40 lakhs). Previously, a 5% TCS meant an upfront payment of \$2,500 (Rs 2 lakhs). With the new 2% rate, this figure drops to \$1,000 (Rs 80,000), resulting in an immediate saving of \$1,500 (Rs 1.2 lakhs) in blocked capital. This significantly eases the financial strain on middle-class families, who primarily send their children to popular destinations like the USA, UK, Canada, Australia, and Germany. This policy shift reflects a strategic understanding that Indian students pursuing education abroad are not merely a "brain drain" but contribute to "brain circulation," enriching India with global knowledge and networks upon their return.

### Medical Expenses (TCS Reduction)

The TCS rate for overseas medical expenses has also been rolled back from 5% to 2%, partially reversing earlier increases. This measure addresses a critical need for many Indians who seek specialized medical treatment abroad, often for complex procedures, critical surgeries, or organ transplants that may not be readily available or are more advanced in certain foreign institutions. Popular destinations for medical tourism from India include Thailand, Singapore, Malaysia, and sometimes even Western countries for highly specialized care.

The previous 5% TCS imposed an additional financial burden during what is already a stressful and often urgent situation—a medical emergency. For a medical bill of \$20,000 (approx. Rs 16 lakhs), the earlier 5% TCS amounted to \$1,000 (Rs 80,000). Now, at 2%, this is reduced to \$400 (Rs 32,000), offering a saving of \$600 (Rs 48,000) in upfront costs. While the government aims to bolster domestic healthcare infrastructure, this reduction demonstrates a compassionate approach to supporting citizens who must travel abroad for essential medical care, balancing national development goals with immediate public welfare needs.

In conclusion, these consumer-focused adjustments underscore a broader message: the government is actively listening to public feedback and demonstrating a willingness to course-correct on policies that, while potentially well-intended, may have created unintended hardship or friction for its citizens. This responsiveness aims to build trust and ensure that policy frameworks are adaptable to the socio-economic realities faced by the Indian populace both at home and abroad.

# Strategic Stability in Choppy Waters

## The Common Thread

If 2025 was about boosting middle classes and consumption, and 2024 about shoring up political constituencies, 2026 is about stabilizing in choppy global waters. The common thread runs through strategic areas like semiconductors, critical minerals, battery storage, and defence.

Sitharaman's ninth budget blends immediate concerns with long-term structural goals, emphasizing fiscal consolidation while maintaining a 4.3% fiscal deficit target. Those expecting big-bang reforms akin to 1991 may be disappointed, but the Budget delivers strategic continuity.

The Reform Express, as Sitharaman called it, maintains momentum toward fulfilling India's kartavya—balancing ambition with inclusion while remaining deeply integrated with global markets.



# Empowering Rural India: The VB GRAM G Programme

Finance Minister introduced a transformative new framework for rural welfare, signaling a fresh approach to India's development agenda.



### New Welfare Framework

The VB GRAM G programme is set to redefine rural development strategies across the nation.



### Significant Allocation

A substantial Rs 95,600 crore has been allocated to power this initiative, emphasizing its strategic importance.



### Replaces MGNREGA

This new program recalibrates rural employment support bringing a modern vision to rural support.





FISCAL STRATEGY

## Balancing Fiscal Health with Growth

Finance Minister's latest budget, often referred to as Part B, outlines a dual strategy: aggressive fiscal consolidation paired with continued strategic capital expenditure. This approach aims to secure India's long-term economic stability while fostering robust growth.

### Fiscal Discipline: Key Targets

- **Fiscal Deficit:** Targeted at 4.3% of GDP by 2026-27, a reduction from 4.4% in 2025-26.
- **Debt-to-GDP Ratio:** A new principal policy anchor, aiming for 50% by 2031, reinforcing fiscal prudence.
- **Revenue Mobilization:** Net tax receipts estimated at **₹28.67 lakh crore** for FY27, a 7.2% increase, crucial for deficit management.

This shift emphasizes a commitment to medium-term fiscal health, replacing traditional deficit markers with a widely accepted indicator of a country's financial stability.

### Continued Capital Expenditure

- **FY27 Capex:** Projected at **₹12.2 lakh crore**, an 11.5% increase over the current year.
- **Strategic Investment:** Building on prior increases, capital expenditure has risen from ₹7.5 lakh crore in 2022-23 to this new projection, driving infrastructure development.
- **Economic Multiplier:** Projects like highways and ports generate jobs and stimulate allied industries (cement, steel), creating a "crowding in" effect for private investment.

While the pace is more gradual, the government maintains its role in boosting investment, leveraging public spending to catalyze broader economic growth and employment.

STAKEHOLDER FOCUS

## Farmers & Fishermen: Empowering Rural India

### Strengthening Marine Trade

Fish caught by Indian vessels in India's Exclusive Economic Zone (EEZ)—an area extending up to 200 nautical miles from the coast where India has special rights over marine resources—or on the high seas are now treated as duty-free when brought to Indian ports. This means they are exempt from import duties, effectively recognizing them as domestic produce. Conversely, if these catches are directly landed at foreign ports, they are treated as exports from India, streamlining international trade processes. Furthermore, the value-limit for duty-free imports of "specified inputs"—essential items like specialized fishing gear, processing equipment, or packaging materials crucial for the fishing industry—has been significantly increased from 1% to 3% of the Free On Board (FOB) value. This expansion allows the industry to acquire more vital resources without incurring additional tax burdens, fostering growth and efficiency.

### Key Benefits

- **Higher net realisation through tax savings:** The exemption from duties on marine catches and the expanded limit for duty-free input imports directly reduce operational costs for fishermen and marine businesses. These significant tax savings translate into higher disposable income for individuals and increased profits for enterprises, thereby improving the economic well-being of fishing communities.
- **Enhanced export competitiveness:** By lowering the cost of production and processing through duty exemptions and input allowances, Indian marine products become more price-competitive in the global market. This competitive edge is expected to boost export volumes, increase foreign exchange earnings, and solidify India's position as a major seafood exporter.
- **Reduced TCS on Tendu leaves to 2%:** Tax Collected at Source (TCS) is a tax collected by the seller from the buyer at the point of sale. Tendu leaves are a primary source of income for many tribal and forest-dwelling communities, particularly for the beedi (traditional cigarette) industry. Reducing the TCS rate from the general 5% to 2% directly benefits these communities by ensuring they retain a larger portion of their earnings from the sale of Tendu leaves, enhancing their economic stability.
- **Stronger cooperative institutions:** The collective benefits from these reforms, such as increased income and reduced costs, empower cooperative societies in the agricultural and fisheries sectors. By allowing members to pool resources and collectively benefit from policy advantages, these reforms foster greater cooperation, self-reliance, and organizational strength within rural economic structures.

STAKEHOLDER FOCUS

## Co-operatives: Collective Strength, Shared Prosperity

### Expanded Incentives

Deductions have been extended to primary cooperative societies involved in supplying cattle feed and cotton seed. These deductions reduce their taxable income, leading to lower tax burdens and increased retained earnings. This significant expansion builds on existing coverage for milk, oilseeds, fruits, and vegetables, demonstrating a holistic approach to agricultural support. It directly impacts the profitability of livestock farmers and cotton growers, fostering growth, financial viability, and overall prosperity in agricultural cooperatives.

### Tax Neutrality

Inter-cooperative dividend income, which refers to profits earned by one cooperative from its investments in another, is now allowed as a deduction under the new tax regime when distributed to members. This eliminates the burden of "double taxation," where the same income would be taxed at both the cooperative and member levels. This reform ensures tax fairness, encourages capital flow and mutual investment within the cooperative ecosystem, and ultimately provides more financial benefit directly to cooperative members.

### Legacy Protection

Notified national co-operative federations, which are apex bodies representing cooperative societies across various sectors, receive a crucial three-year exemption for dividend income. This applies specifically to income from investments made in companies up to January 31, 2026. This exemption protects legacy investments from immediate tax changes, allowing these federations a transition period to adjust their financial strategies. The cutoff date likely reflects a policy decision to encourage new investments under revised tax frameworks while safeguarding historical capital allocations.



STAKEHOLDER FOCUS

## Middle-Class Families: Reducing Friction, Protecting Savings

### Passenger Facilitation

Duty-free allowances permit travelers to bring certain goods into a country without paying customs duties or taxes, typically up to a specified value or quantity. Previously, travelers often faced ambiguity regarding what constituted 'personal effects' and whether items like laptops fell under this category, leading to potential delays and inconvenience at customs. The government has now provided much-needed clarity on bringing laptops along with personal effects, ensuring a smoother customs experience. Furthermore, an online and app-based facility for declaration and duty payment has been introduced. This digital solution allows travelers to declare dutiable goods and pay any applicable duties from their mobile devices, even before arrival. This innovation significantly reduces wait times, streamlines the process, and brings greater convenience, transparency, and predictability to international travel for middle-class families.

### TCS Rationalisation

Tax Collected at Source (TCS) is a tax collected by sellers from buyers at the time of sale, which the seller then deposits with the government. For many overseas transactions, TCS rates were historically high, ranging from 5% to a burdensome 20% for certain remittances, which created significant upfront financial strain. The government has rationalized the TCS rates, reducing them to 2% for overseas tour packages. More significantly, for remittances made under the Liberalised Remittance Scheme (LRS) for education and medical purposes, the TCS rate has also been brought down from 5% to 2%. The LRS allows resident individuals to freely remit up to USD 250,000 per financial year for various purposes, including education and medical treatment abroad. This reduction provides substantial financial relief to families sending their children abroad for higher education or seeking crucial medical treatment overseas, making these essential services more accessible and affordable. It also makes overseas tour packages more attractive and affordable for families.

### Healthcare Support

Access to affordable medication for serious illnesses is critical for middle-class families. Recognizing this, the government has exempted duty on 17 specific cancer drugs, including vital life-saving medications like Pembrolizumab, Nivolumab, and Daratumumab (examples if specific drugs were detailed in the policy, otherwise use general phrasing). These exemptions drastically reduce the cost of treatment, offering a lifeline to patients and their families battling cancer. Moreover, the policy now enables duty-free personal imports for medicines and food required for 7 additional rare diseases. Rare diseases, by their nature, often require specialized and expensive medications or dietary supplements that may not be readily available or affordable domestically. This provision allows families to import necessary treatments directly, free of duty, providing immense financial relief and improved access to critical care for conditions like Spinal Muscular Atrophy or Lysosomal Storage Disorders. This initiative alleviates a significant financial burden, allowing families to focus on patient care rather than the prohibitive costs of specialized treatments.

**2%**

**New TCS Rate**

For education, medical, and tour packages

**17**

**Cancer Drugs**

Now duty-free



STAKEHOLDER FOCUS

## Indian Businesses: Facilitating Investment-Led Growth

### Customs Process Reforms

The government has introduced several reforms to simplify customs procedures.

**Deferred duty payment** allows pre-approved, financially stable "trusted entities" (such as Authorized Economic Operators - AEOs) to pay import duties at a later date, significantly improving cash flow and reducing the immediate financial burden on businesses.

The new system also includes **automatic goods registration**, which eliminates manual data entry for imported goods by integrating with other systems like shipping manifests. This reduces errors, speeds up processing times, and enhances transparency. For **e-sealed cargo**, which refers to containers sealed with electronic devices allowing real-time tracking, an **end-to-end automated clearance** process has been implemented. This allows goods to clear customs without physical inspection, drastically reducing transit time and bottlenecks at ports and borders. Furthermore, the **advance ruling validity** has been extended to 5 years, providing long-term predictability for businesses regarding tariff classification, origin, and valuation. This stability aids in long-term planning, reduces potential disputes, and fosters a more reliable trade environment, ultimately enhancing business operations and optimizing cash flow.

### Tax Certainty for IT/ITES

To foster growth in the IT/ITES sector, the government has introduced new **safe harbour provisions**. In the context of transfer pricing, these provisions offer pre-defined conditions under which certain intra-group transactions are accepted by tax authorities without further scrutiny, simplifying compliance and reducing litigation risks. The introduction of **higher thresholds and competitive margins** means that more companies, particularly small and medium-sized enterprises (SMEs) in the IT/ITES sector, can now qualify for these simplified transfer pricing rules, making them more attractive and viable. Additionally, the **Advance Pricing Agreement (APA) programme**, which allows taxpayers to agree on transfer pricing methodologies with tax authorities in advance, has been accelerated for larger transactions. The **accelerated APA programme** streamlines the process for high-value cross-border dealings, providing faster resolution and greater certainty. This overall push for **tax certainty** is crucial for the IT/ITES sector, as it minimizes tax-related disputes, encourages foreign investment, and allows companies to allocate resources more efficiently towards innovation and expansion rather than litigation.

### Strategic Exemptions

The government has implemented key duty exemptions to support strategic industries and national objectives. **Duty exemptions on aircraft parts** are strategically important for both the aviation and manufacturing sectors.

By reducing the cost of imported components, it supports domestic airline operations, MRO (Maintenance, Repair, and Overhaul) activities, and encourages localized aircraft manufacturing, aligning with the 'Make in India' initiative. Similarly, exemptions for **nuclear power project goods** are critical for India's energy security, as they reduce the cost of developing and expanding nuclear energy infrastructure, a vital component of the country's clean energy goals. Exemption for **lithium-ion cell manufacturing capital goods** provides a significant boost to the electric vehicle (EV) and battery manufacturing ecosystem, reducing import costs for machinery and equipment necessary to produce advanced batteries domestically, which is essential for sustainable mobility. Lastly, **critical mineral exploration support** through duty exemptions is crucial for securing essential raw materials needed for high-tech industries and defense. These targeted exemptions collectively aim to reduce import dependence, enhance domestic manufacturing capabilities, attract investment, and further the broader strategic goals of 'Make in India' and 'Atmanirbhar Bharat' (Self-Reliant India).

STAKEHOLDER FOCUS

# MSMEs: Enabling Small Enterprise Growth

Comprehensive reforms designed to lower compliance costs, simplify taxation, and reduce litigation exposure for MSMEs, enabling them to focus on growth and employment generation.

"Small enterprises are the backbone of employment and innovation."

## Key Benefits

1

**Deferred duty payment window for trusted MSMEs:** This provision allows eligible Micro, Small, and Medium Enterprises (MSMEs) to pay their import duties at a later date, significantly easing their financial burden. To be considered "trusted," MSMEs typically need to demonstrate a consistent compliance history and financial stability, often aligning with criteria for Authorized Economic Operators (AEOs). This deferred payment, often for a typical duration of several weeks or months, greatly improves the cash flow of small businesses by not tying up capital in immediate duty payments. This helps them compete with larger enterprises that often have greater liquidity, creating a more level playing field.

2

**Automatic goods registration and clearance:** This system streamlines the import and export process for MSMEs by integrating with other digital systems like shipping manifests. It works by automatically registering goods and processing clearance without the need for extensive manual data entry or physical inspection. This significantly reduces paperwork and manual processes, leading to substantial time savings and efficiency gains. For MSMEs, quicker clearance means faster market entry and reduced logistical costs. Furthermore, by minimizing human intervention, the system helps reduce the potential for corruption and delays, ensuring a transparent and predictable trade environment.

3

**Lower deduction certificate scheme:** Lower Deduction Certificates (LDCs) are issued to taxpayers who can demonstrate that their final tax liability will be lower than the rate at which Tax Deducted at Source (TDS) is normally applied. MSMEs can apply for these certificates, allowing them to receive payments with a reduced or zero TDS deduction. This prevents their working capital from being unnecessarily blocked with the government and improves their cash flow. The application process has been simplified compared to previous requirements, making it easier for MSMEs to manage their finances effectively.

4

**Simplified TDS for labour-intensive sectors:** Tax Deducted at Source (TDS) refers to income tax paid by the deductor on behalf of the deductee. For labour-intensive sectors such as manufacturing, construction, and certain service industries, managing TDS for a large workforce can be complex and burdensome. The simplification of TDS rules for these sectors means easier calculations, fewer forms, and less administrative work. This reduces the overall compliance burden, allowing businesses with large workforces to focus more on operations rather than complex tax administration, potentially leading to cost savings and increased operational efficiency.

5

**Extended timelines for revised returns:** Revised returns are filed by taxpayers to correct errors or omissions in their original tax filings. Previously, the window for filing revised returns was shorter, creating pressure and increasing the risk of penalties for MSMEs. The extended timeline provides small business owners with more time to review their accounts, identify and rectify any discrepancies, and file accurate returns without undue stress. This practical benefit helps MSMEs avoid penalties for minor errors and ensures greater accuracy in their financial reporting.

6

**Conversion of penalties into fees:** In a tax context, penalties are typically punitive measures for non-compliance, often with a variable and potentially high financial impact. Fees, on the other hand, are fixed charges for administrative services or minor infractions. The conversion of certain penalties into fees for MSMEs means that for minor compliance errors, the financial burden is significantly reduced and becomes more predictable. This represents a shift from a purely punitive approach to a more facilitative and supportive one, encouraging compliance rather than severely punishing small missteps, thereby fostering a more business-friendly environment for MSMEs.



### Automated Clearance

System-driven approvals and checks

### Digital Governance

Online compliance and records

### Deferred Duties

Allow delayed duty payments

### Reduced Litigation

Lower disputes and faster resolution

# Non-Resident Corporations & NRIs

1

## Data Centre Incentives

The provision of a tax holiday till 2047 means that foreign companies operating data centres in India will be exempt from paying certain taxes on their profits until that year. This extended exemption significantly reduces the operational cost and increases profitability for global cloud service providers, making India a highly attractive destination for investment. This incentive directly benefits foreign companies that provide cloud services globally, leveraging data centre infrastructure located within India. By establishing data centres here, they can offer their services worldwide while enjoying substantial tax savings.

Furthermore, safe harbour provisions for related entity arrangements offer protection from aggressive tax adjustments for transactions between a foreign company and its Indian subsidiary (related entities), provided they operate within specified profitability ranges. This brings clarity and certainty to transfer pricing regulations, reducing litigation risk and administrative burden for multinational corporations.

Attracting these global cloud service providers is strategically important as it boosts India's digital infrastructure, enhancing connectivity and data processing capabilities. This influx of investment fosters growth in the technology sector, creating jobs, promoting skill development, and positioning India as a global digital hub.

2

## Global Supply Chain Support

Safe harbour in this context refers to a set of rules or conditions under which certain transactions or activities are deemed to be compliant with tax regulations, thereby shielding businesses from detailed scrutiny or potential disputes. For component warehousing in India, meeting these conditions means businesses can operate with reduced tax risk and clearer guidelines.

Bonded warehouses are secure customs-controlled facilities where imported goods can be stored without payment of customs duties, taxes, or other levies until they are released for consumption, export, or further processing. This allows businesses to defer duty payments, improving cash flow and flexibility in managing inventory. The effective tax rate of 0.7% on such operations is likely achieved through a combination of reduced customs duties, GST benefits, or specific incentives applicable to goods stored and re-exported from bonded warehouses, significantly lowering the cost of holding inventory for international trade.

Toll manufacturers are companies that provide manufacturing services to another company (the brand owner), using the brand owner's raw materials and specifications. They typically charge a "toll" or fee for their services. The five-year exemption for capital goods provided to toll manufacturers in bonded zones means that machinery and equipment imported by brand owners and supplied to these manufacturers within bonded zones will be exempt from import duties for five years. This encourages foreign companies to use India as a manufacturing base, strengthening domestic production capabilities and integrating India more deeply into global supply chains.

3

## NRI Facilitation

PAN (Permanent Account Number) is a ten-digit alphanumeric identifier issued by the Indian Income Tax Department, essential for all financial transactions.

TAN (Tax Deduction and Collection Account Number) is a ten-digit alphanumeric number required for all persons deducting or collecting tax at source. Traditionally, property transactions often required TAN-related documentation, which could be cumbersome for Non-Resident Indians (NRIs).

The introduction of PAN-based challan replacing TAN requirements simplifies property transactions for NRIs by streamlining the process of tax payment. NRIs previously faced challenges such as complex paperwork, delays due to TAN-related compliance, and difficulties in understanding the nuanced tax deduction at source (TDS) regulations for property sales, often leading to prolonged transaction times and higher compliance costs.

Furthermore, reduced TCS (Tax Collected at Source) rates apply to specific transactions involving NRIs, making it more favorable for them to undertake certain financial activities without a significant upfront tax burden. The online declaration facilities for international passengers simplify customs procedures, allowing travelers to pre-declare dutiable goods, reducing queues and improving efficiency at airports.

These measures collectively aim to reduce bureaucratic hurdles, increase transparency, and create a more investor-friendly environment, thereby encouraging greater NRI investment in Indian real estate and other sectors.

4

## IFSC Extension

An IFSC (International Financial Services Centre) is a special jurisdiction that provides financial services to clients outside the domestic economy. India's primary IFSC is Gujarat International Finance Tec-City (GIFT City), designed to be a global financial and IT services hub.

A profit-linked deduction is a tax incentive where a percentage of a business's profits is allowed as a deduction from its taxable income. This significantly reduces the effective tax burden. The extension of this deduction for IFSC units from a previous, shorter duration to 20 consecutive years out of 25 years is a monumental step. This means IFSC-registered entities can choose any 20 consecutive years within a 25-year block to avail this tax benefit, providing unprecedented long-term tax certainty and stability.

This extension substantially strengthens India's position as a global financial hub by offering a highly competitive tax regime for financial services. It attracts a broad range of institutions including international banks, insurance companies, asset management firms, hedge funds, and fintech companies to set up operations in GIFT City. The types of financial services that benefit span capital markets, banking, insurance, asset management, and ancillary services like legal and accounting.

This competitive advantage positions GIFT City as an attractive alternative to established financial centers like Dubai, Singapore, and London, driving foreign capital inflows, creating high-skilled jobs, and fostering innovation in India's financial sector.

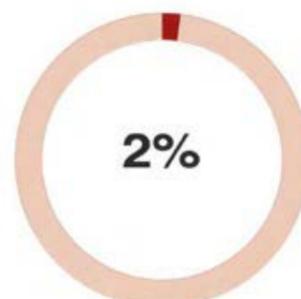




STAKEHOLDER FOCUS

## Students & Senior Citizens: Dignity and Accessibility

### Students: Making Education Accessible



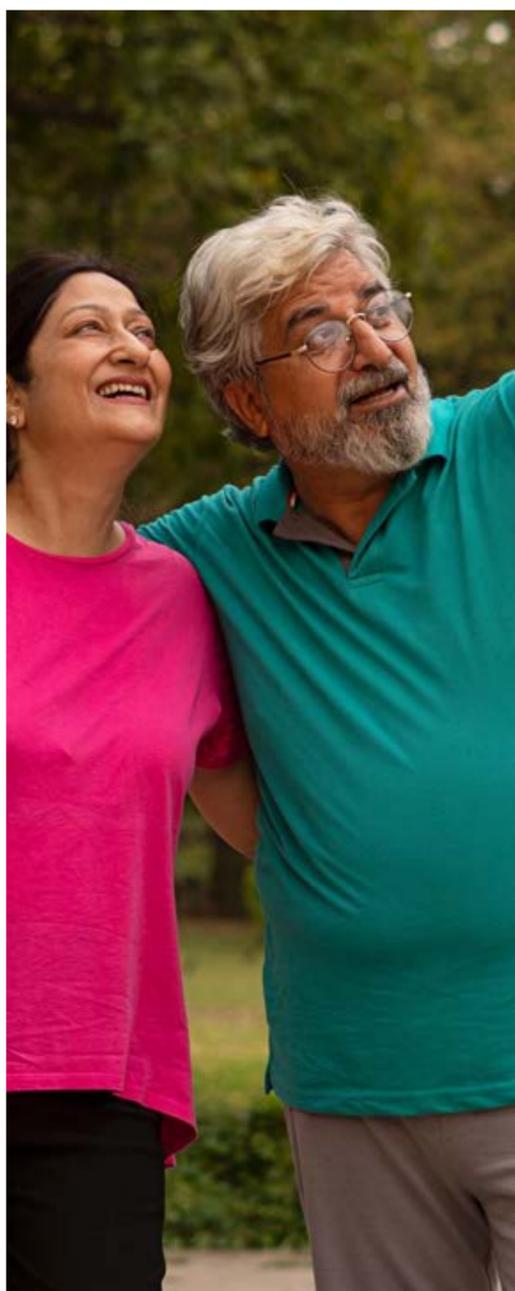
Reduced TCS rate for education remittances

The **reduced Tax Collected at Source (TCS) rate to 2%** significantly lowers the upfront financial burden for students pursuing overseas education. Previously, the TCS rate could be higher, requiring families to block a substantial amount of money with the government at the time of remittance, which would only be refunded later upon filing tax returns. This immediate reduction makes it much more affordable to send funds abroad for tuition fees and living expenses.

This is facilitated through the **Liberalised Remittance Scheme (LRS)**, which allows resident individuals to remit up to USD 250,000 per financial year for various purposes, including education. For education, remittances exceeding a certain threshold are subject to TCS. By lowering this rate, the government directly addresses the liquidity concerns of families, enabling smoother and more accessible financial planning for international studies. This change ensures that a smaller portion of the remitted amount is withheld as tax, providing immediate relief and improving cash flow for educational expenses.

Furthermore, the introduction of **uniform customs duty for personal imports including gifts** means that students returning from abroad, or those receiving essential items and gifts from family, will face predictable and potentially lower costs. This removes ambiguity and simplifies the process of bringing in personal effects, making transitions easier for students. It particularly benefits students who might rely on items from home or bring back goods after completing their studies without incurring excessive and varied customs charges.

Overall, these measures greatly enhance the **accessibility of international education** for Indian students by reducing the initial financial outlay and simplifying related logistical and customs procedures. This proactive approach aims to encourage academic pursuits abroad by alleviating financial stress and bureaucratic hurdles, fostering a generation of globally educated professionals.



### Senior Citizens: Simplicity and Security

- **Duty exemption on 17 cancer drugs:** This provides crucial financial relief for senior citizens battling cancer, a disease often associated with high treatment costs. By exempting import duties on these life-saving medications, the government aims to make cancer treatment more affordable and accessible. This measure directly reduces the out-of-pocket expenses for patients and their families, ensuring that essential drugs for various cancer types – potentially including chemotherapy agents, immunotherapy drugs, and targeted therapies – are available without the added burden of import taxes, thereby significantly improving the affordability and quality of care.
- **Duty-free imports for 7 more rare diseases:** Extending duty-free import status to medications for an additional seven rare diseases is a significant step towards alleviating the financial strain on affected senior citizens. Many rare diseases require specialized, often imported, drugs that are exorbitantly priced due to limited demand and production. The duty exemption makes these otherwise unaffordable treatments accessible, ensuring patients suffering from conditions like certain genetic disorders, neurological diseases, or enzyme deficiencies can receive necessary care without the heavy burden of customs duties. This initiative aims to improve quality of life and prolong lives for a vulnerable patient population.
- **Single window filing for Form 15G/15H:** Forms 15G (for individuals below 60 years) and 15H (for senior citizens above 60 years) are declarations used to avoid Tax Deducted at Source (TDS) on certain income, primarily interest income, if the individual's total income for the year is below the taxable limit. Senior citizens often rely on interest from fixed deposits and other investments for their livelihood. Previously, filing these forms could be cumbersome, requiring separate submissions to multiple entities (e.g., different banks). The **single window filing** system simplifies this process significantly, allowing senior citizens to submit a single declaration that covers all their income sources. This reduces paperwork, minimizes visits to financial institutions, and lessens the administrative burden, making it easier for them to manage their finances and avoid unnecessary TDS deductions.
- **Lower deduction certificate scheme:** This scheme allows senior citizens with fixed incomes to apply for a certificate that permits the deductor (e.g., bank) to deduct TDS at a lower or even zero rate. Many senior citizens have incomes primarily from pensions and interest, which might be below the tax-exempt threshold or just slightly above it. Without this certificate, TDS would be deducted at a standard rate, leading to unnecessary upfront tax payments. This scheme helps them avoid unwanted tax deductions, ensuring they have access to their full income without delay, improving their liquidity and financial stability throughout the year rather than waiting for a refund.
- **Extended timeline for revised returns:** The extension of the deadline for filing revised income tax returns provides much-needed flexibility and peace of mind for elderly taxpayers. Senior citizens may face challenges in accurately assessing their income or gathering documents, and sometimes discover errors or omissions after filing their original return. The extended timeline reduces the pressure and stress associated with strict deadlines, offering more time to rectify mistakes without incurring penalties. This measure acknowledges the practical difficulties some senior citizens might face due to age, health, or complexity of tax regulations, ensuring they can comply with tax laws more comfortably and avoid punitive measures for genuine oversights.

"The measure of a society is how it treats its elders."

STAKEHOLDER FOCUS

# Manufacturing, Importers & Exporters

1

## Manufacturing

The government has implemented duty exemptions on aircraft parts, nuclear power goods, lithium-ion cell capital goods, and critical minerals, alongside initiatives for deferred duty payment and system-driven clearance. The duty exemptions on aircraft parts are strategically vital for boosting India's nascent aviation and aerospace manufacturing industry, reducing import costs for components, and encouraging domestic production under the 'Make in India' initiative. For nuclear power goods, these exemptions directly support India's clean energy goals and enhance energy security by making the development and maintenance of nuclear power plants more cost-effective. The exemptions for lithium-ion cell capital goods are crucial for accelerating India's electric vehicle (EV) revolution and building a robust domestic battery manufacturing ecosystem, reducing reliance on imports for these critical components. Critical minerals, such as rare earth elements, are indispensable for high-tech industries, electronics, and defense applications; their exemption ensures a stable supply chain and supports indigenous innovation. Furthermore, the provision for deferred duty payment significantly improves cash flow for manufacturers by allowing them to delay payment of customs duties, freeing up working capital for operations and expansion. System-driven clearance streamlines the import and export processes through automation, minimizing human intervention, reducing processing times, and ensuring faster movement of goods. This not only speeds up manufacturing operations but also reduces logistical bottlenecks, contributing significantly to the 'Atmanirbhar Bharat' (Self-Reliant India) vision by fostering a competitive domestic manufacturing sector.

2

## Importers

Measures for importers include automatic goods registration, unified systems for single touchpoint interaction with Participating Government Agencies (PGAs), and product-specific tariff entries for improved tracking. Automatic goods registration is a digital initiative that eliminates manual processes, reducing errors and saving significant time by automatically recording imported goods in the system upon arrival. PGAs are various governmental bodies responsible for regulating specific imported products (e.g., health, food safety, environmental standards); previously, importers had to interact with each PGA separately. The new unified systems for single touchpoint interaction consolidate these interactions into a single digital platform, drastically simplifying compliance, reducing administrative burden, and enhancing ease of doing business. Product-specific tariff entries mean that goods are categorized with greater precision, which improves tracking capabilities across the supply chain, minimizes classification disputes, and allows for more accurate duty assessment. Collectively, these initiatives lead to a substantial reduction in paperwork and processing time at customs and other regulatory bodies. The increased automation and standardized processes inherently reduce opportunities for corruption and significantly increase transparency in the import ecosystem. The overall impact is a dramatic improvement in import efficiency, leading to faster clearance of goods, predictable costs, and ultimately, a significant reduction in cost for businesses that rely on imported raw materials or finished products.

3

## Exporters

For exporters, key initiatives include end-to-end automated clearance for e-sealed cargo, a seamless process for returns and rejects, and an extended timeline for duty-free input exports. E-sealed cargo refers to consignments fitted with electronic seals, allowing for real-time tracking and tamper detection from origin to destination. This enables end-to-end automated clearance without the need for physical inspection at various checkpoints, significantly expediting the movement of goods across borders. The seamless process for returns and rejects addresses a long-standing pain point for exporters. Previously, Indian exporters faced considerable bureaucratic hurdles and additional duties when goods were returned or rejected by international buyers, often due to quality issues or contractual disagreements. This new process simplifies the re-importation of such goods, making it less costly and less time-consuming for exporters to manage these situations, thereby reducing financial losses and maintaining good relationships with international clients. The extended timeline for duty-free input exports allows export-oriented businesses more flexibility regarding when they must export products made from duty-free imported inputs. This improves working capital management for these businesses, as they have a longer period before they are required to export the finished product, giving them more time to find buyers and manage production cycles effectively. These comprehensive measures collectively provide a significant competitive advantage to Indian exporters globally by reducing costs, accelerating logistics, and simplifying complex trade procedures, fostering growth in international trade.

STAKEHOLDER FOCUS

## Common Man: Lowering Tax Burden, Making Life Easy

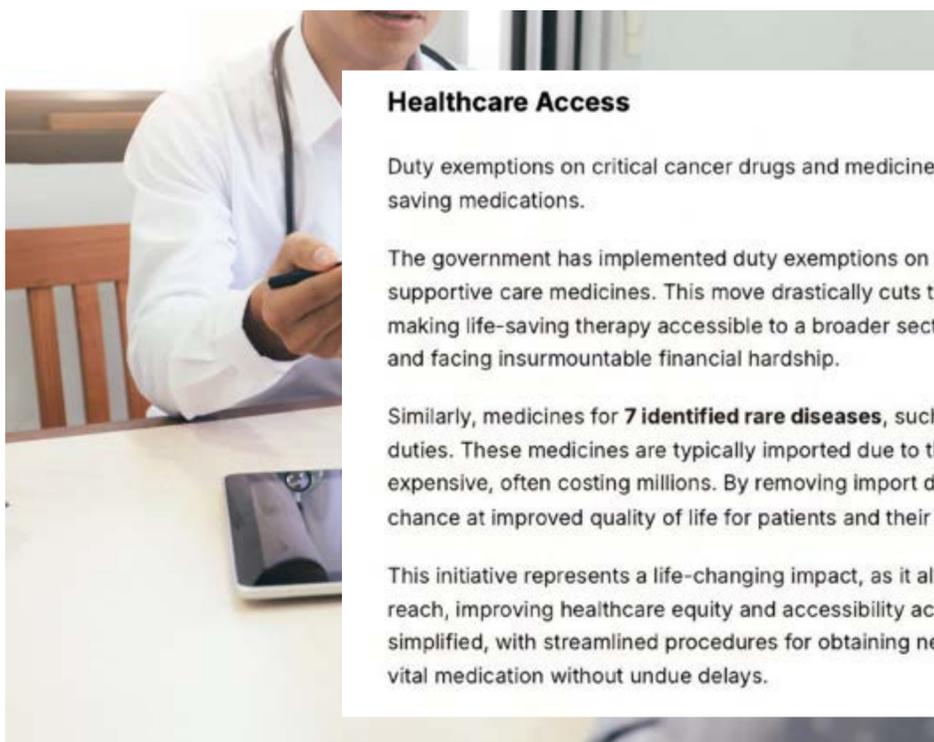
### Everyday Welfare Improvements

Comprehensive reforms designed to ease financial and compliance burdens on citizens through rationalised indirect taxes, simplified customs procedures, and reduced upfront cash outflows.

**Rationalised indirect taxes** mean simplifying the tax structure and reducing rates where appropriate, directly impacting the prices of goods and services. For example, measures such as reduced Tax Collected at Source (TCS) rates on certain transactions, like overseas tour packages or foreign remittances, directly lessen the immediate financial outflow for individuals. Furthermore, simplified GST compliance for small businesses and service providers means less overhead, which can translate to more competitive pricing for consumers. These changes aim to make everyday purchases more affordable and transparent for the common man.

**Simplified customs procedures** benefit ordinary citizens by streamlining the import of personal goods, including online purchases from international vendors. This results in faster delivery, less bureaucratic hassle, and reduced chances of goods being stuck in customs, making global e-commerce more accessible and reliable for personal use.

**Reduced upfront cash outflows** are achieved through measures like the aforementioned TCS reductions, such as bringing down rates from 5% to 2% on specific transactions. This means individuals don't have to pay a significant portion of tax upfront, improving immediate liquidity and cash flow for household budgets and financial planning. These reforms cumulatively contribute to better management of personal finances, allowing more disposable income and greater ease in planning for future expenses. They also significantly reduce the compliance burden, shifting from complex, often confusing, tax processes to a more citizen-friendly and accessible administration, making tax-related tasks less daunting for average taxpayers.



### Healthcare Access

Duty exemptions on critical cancer drugs and medicines for rare diseases significantly reduce treatment costs and improve accessibility to life-saving medications.

The government has implemented duty exemptions on **17 critical cancer drugs**, including key chemotherapy agents, targeted therapies, and supportive care medicines. This move drastically cuts the cost of these essential treatments, which can often run into lakhs of rupees annually, making life-saving therapy accessible to a broader section of the population. For families, this means the difference between affording treatment and facing insurmountable financial hardship.

Similarly, medicines for **7 identified rare diseases**, such as Spinal Muscular Atrophy and Pompe disease, are now also exempt from customs duties. These medicines are typically imported due to the lack of domestic production for such niche conditions and are exceptionally expensive, often costing millions. By removing import duties, the government directly lowers these prohibitive costs, offering a ray of hope and a chance at improved quality of life for patients and their families who previously had limited options.

This initiative represents a life-changing impact, as it alleviates a huge financial burden and offers access to treatments that were once out of reach, improving healthcare equity and accessibility across all income levels. The process of importing these crucial medicines has also been simplified, with streamlined procedures for obtaining necessary approvals and quicker customs clearance, ensuring that patients receive their vital medication without undue delays.

### Travel Facilitation

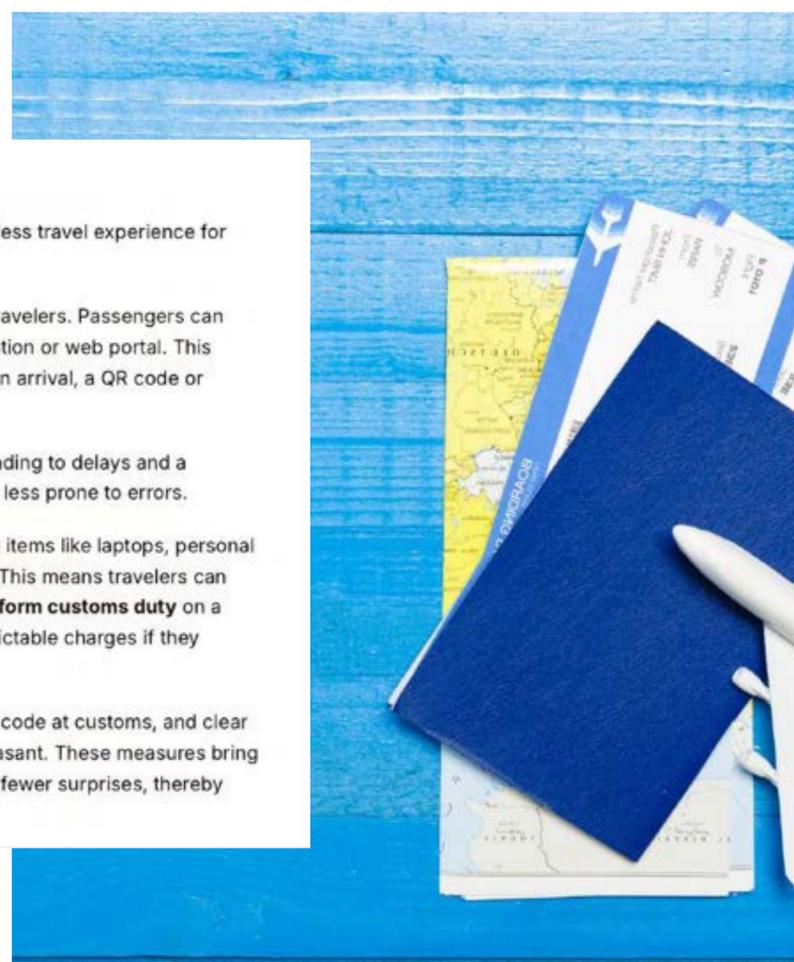
Online and app-based declaration facilities, revised duty-free allowances, and uniform customs duty create a seamless travel experience for international passengers.

The introduction of **online and app-based declaration facilities** revolutionizes the arrival process for international travelers. Passengers can now complete their customs declaration forms digitally before or during their flight using a dedicated mobile application or web portal. This system requires travelers to input personal details, flight information, and declare dutiable goods electronically. Upon arrival, a QR code or digital confirmation is presented to customs officials, significantly speeding up the verification process.

Previously, travelers often faced lengthy queues, cumbersome paper forms, and confusion over what to declare, leading to delays and a stressful start to their journey. The new system bypasses these challenges, making the process quick, intuitive, and less prone to errors.

Furthermore, **revised duty-free allowances** now provide greater clarity and generosity. For instance, allowances on items like laptops, personal electronic effects, and certain high-value goods have been updated, with clear value limits and categories defined. This means travelers can bring back more personal items or gifts without incurring duties, within specified limits. The implementation of a **uniform customs duty** on a range of commonly imported goods removes previous ambiguities, ensuring that travelers face consistent and predictable charges if they exceed their duty-free limits, thus removing confusion and arbitrary assessments.

The step-by-step experience for a traveler is now significantly smoother: complete declaration digitally, present QR code at customs, and clear rapidly. This dramatically reduces wait times at airports, making the overall travel experience more efficient and pleasant. These measures bring enhanced transparency and predictability to the customs process, empowering travelers with clear information and fewer surprises, thereby fostering a more welcoming environment for international visitors and returning citizens alike.



THEMATIC ANALYSIS

## Make in India: Building What the World Buys

1

### Customs Process Reforms

These reforms are designed to significantly ease the flow of goods, reduce compliance burdens, and enhance the competitiveness of Indian manufacturing on a global scale. They directly support the "Make in India" initiative by creating a more attractive environment for domestic production and international trade.

- **Deferred duty payment:** This allows manufacturers to pay import duties at a later date, rather than upfront. This crucial change improves cash flow for businesses by not tying up capital immediately on imported raw materials or components, freeing up funds for investment in production, innovation, and expansion.
- **Automatic clearance for trusted supply chains:** Entities qualifying as "trusted supply chains" typically demonstrate a high level of compliance, security, and transparency, often holding Authorized Economic Operator (AEO) status. For these certified businesses, consignments receive automatic customs clearance, eliminating manual inspections and associated delays. This results in faster movement of goods and reduced lead times.
- **Unified systems for single touchpoint interaction:** This means integrating various government agencies involved in trade (e.g., Customs, Port Authorities, Directorate General of Foreign Trade - DGFT) into a single digital platform. Businesses can interact with all relevant bodies through one portal, reducing redundant paperwork, multiple submissions, and bureaucratic hurdles.
- **Product-specific entries for export tracking:** This involves the use of detailed, harmonized system (HS) codes and other specific descriptors for goods at the time of export. This granular data enables more precise tracking of products from origin to destination, improving transparency, facilitating data-driven policy-making, and enhancing India's position in global trade agreements.

The overall impact is a significant boost in manufacturing efficiency, reduced logistics and compliance costs, and improved predictability in supply chains, making India a more appealing hub for domestic and international manufacturing.



2

### Strategic Duty Exemptions

Targeted duty exemptions are crucial for fostering growth in key strategic sectors, aligning with the "Make in India" and "Atmanirbhar Bharat" (Self-Reliant India) visions by reducing costs for critical components and materials.

- **Aircraft manufacturing parts:** Exemptions on parts for aircraft manufacturing directly support India's burgeoning aviation and aerospace industry. This encourages indigenous aircraft production, strengthens the Maintenance, Repair, and Overhaul (MRO) sector, and reduces reliance on imported finished aircraft, boosting domestic capabilities for both commercial and defense aviation.
- **Nuclear power goods:** Exemptions for goods used in nuclear power generation are vital for India's clean energy transition and energy security goals. By lowering the cost of importing specialized equipment and technologies, these exemptions accelerate the development of nuclear power plants, contributing to a stable, carbon-free energy supply and reducing dependence on fossil fuels.
- **Lithium-ion battery capital goods:** The electric vehicle (EV) revolution heavily relies on advanced battery technology. Exempting capital goods for lithium-ion battery manufacturing incentivizes the establishment of domestic gigafactories and battery component ecosystems, positioning India as a leader in EV production and energy storage solutions.
- **Solar glass materials:** Solar glass is a specialized glass with low iron content and high light transmittance, crucial for the efficiency of photovoltaic (PV) solar panels. Exemptions on these materials reduce the cost of solar panel manufacturing in India, accelerating the country's ambitious renewable energy targets and reducing import dependence for solar components.
- **EV magnet raw materials:** These typically refer to critical rare earth elements like Neodymium and Dysprosium, essential for producing permanent magnets used in electric motors for EVs and wind turbines. Exemptions facilitate the import of these crucial raw materials, underpinning India's push for advanced manufacturing in clean energy and transportation.
- **Ferrous scrap:** Exemptions on ferrous scrap imports support the Indian steel industry, particularly those using electric arc furnaces (EAF) for secondary steel production. This promotes a circular economy by encouraging recycling, reduces the need for virgin iron ore, and lowers overall steel production costs, making Indian steel more competitive.

These strategic exemptions collectively reduce import dependency, enhance local manufacturing capabilities, and integrate India more deeply into global high-value supply chains, reinforcing the goals of "Make in India" and "Atmanirbhar Bharat".

3

### Global Supply Chain Integration

These measures are designed to enhance India's appeal as a manufacturing hub, facilitating smoother global supply chain operations and encouraging investment in high-value production and logistics capabilities.

- **Safe harbour for component warehousing at 0.7% effective tax:** In this context, "safe harbour" refers to a legal provision that protects businesses from excessive or uncertain tax liabilities, provided they operate within specified parameters. For component warehousing, it means imported components can be stored with an effective tax rate of 0.7% (e.g., 0.1% for import duty, 0.6% for IGST). This allows manufacturers to hold inventory without significant upfront duty payments, optimizing cash flow and enabling just-in-time production, making Indian operations more cost-effective and globally competitive.
- **Five-year exemption for capital goods provided to toll manufacturers in bonded zones:** Bonded warehouses or zones are secure areas where imported goods can be stored, manufactured, or re-exported without payment of duties until they are cleared for domestic consumption. Toll manufacturers are companies that process or assemble goods using materials supplied by another company, often for a fee. The five-year exemption on capital goods (machinery, equipment) provided to these toll manufacturers within bonded zones significantly reduces their initial investment costs. This incentivizes foreign companies to establish or expand manufacturing operations in India, leveraging local expertise for processing and assembly, and further integrating India into global manufacturing networks.

These initiatives position India as a more attractive and efficient location for manufacturing and supply chain operations, drawing global players and fostering a robust ecosystem that supports the "Make in India" vision.



4

### Critical Minerals Support

Supporting critical mineral exploration is a strategic move to secure essential resources for advanced industries, reduce import dependence, and bolster national security and economic resilience.

- **Critical minerals:** These are mineral resources like Lithium, Cobalt, Nickel, Rare Earth Elements (e.g., Neodymium, Dysprosium), Copper, and Graphite that are vital for modern technologies and economic development, particularly in sectors like renewable energy, electric vehicles, defense, and high-tech electronics. Their supply chains are often concentrated in a few countries, making them geopolitically sensitive.
- **Why exploration is expensive and risky:** Mineral exploration involves extensive geological surveys, drilling, and testing, requiring significant capital investment over long periods with no guaranteed discovery. The high costs, combined with the low probability of finding commercially viable deposits, deter many private investors.
- **Amortised expense over five years:** This tax benefit allows companies to gradually write off (deduct) their exploration expenditures over a five-year period for tax purposes. Instead of expensing the entire amount in the year it was incurred, which might be financially challenging, businesses can spread the deduction, reducing their taxable income and overall tax burden over time. This makes long-term, high-cost exploration activities more financially viable and attractive.
- **Incentivizes mining companies:** By providing a significant tax incentive, the government encourages both domestic and international mining companies to invest in risky and capital-intensive exploration activities within India. This aims to unlock India's own critical mineral reserves.
- **Reduces import dependence:** India currently relies heavily on imports for most critical minerals. Local discovery and extraction will significantly reduce this dependence, bolstering supply chain resilience and protecting against global price volatility and geopolitical disruptions.
- **Strategic importance:** The secure supply of critical minerals is paramount for India's defense sector (e.g., advanced alloys, missile guidance systems), technology industries (e.g., semiconductors, electronics), and clean energy transition (e.g., EV batteries, solar panels, wind turbines). Indigenous sources ensure national security and enable strategic autonomy in these crucial areas.

This policy is a long-term investment in India's industrial future, fostering self-reliance and global competitiveness in critical technological domains.

THEMATIC ANALYSIS

# Tax Certainty & Trust-Based Administration

## Tax Certainty: Predictability Powers Investment

- **New safe harbour provisions for IT/ITES sector with higher thresholds:** Safe harbour provisions in transfer pricing set predetermined conditions under which certain transactions are automatically accepted by tax authorities, avoiding disputes. For the Information Technology and IT Enabled Services (IT/ITES) sector, which includes software development, BPO, and other tech services, these provisions have been revised with higher thresholds. This means that businesses with increased revenue or transaction limits can now qualify, significantly reducing tax disputes and litigation by offering predetermined acceptable profit margins, thus providing clear guidelines and certainty for businesses.
- **Accelerated APA programme for larger transactions:** An Advance Pricing Agreement (APA) is an agreement between a taxpayer and a tax authority on an appropriate transfer pricing methodology (TPM) for a set of transactions over a fixed period. The accelerated APA program aims to expedite the processing and finalization of these agreements, offering faster resolution and reduced timelines compared to the standard process. This provides crucial certainty on transfer pricing for future years for qualifying larger transactions, enabling businesses to plan with multi-year tax certainty and reduce compliance risks.
- **Safe harbour for non-resident component warehousing:** This safe harbour provision allows non-resident entities to store imported components in Indian warehouses with an effective tax rate as low as 0.7% (e.g., 0.1% for import duty, 0.6% for IGST), without triggering permanent establishment (PE) issues that would typically lead to higher tax liabilities. This encourages foreign companies to utilize India as a strategic logistics hub for their global supply chains, providing certainty that their warehousing operations will not expose them to unexpected tax burdens and attracting global manufacturers to leverage India's location and infrastructure.
- **IFSC profit-linked deduction extended to 20 years:** The International Financial Services Centre (IFSC) in India, particularly GIFT City in Gujarat, offers a competitive environment for financial services. A profit-linked deduction allows eligible entities operating within the IFSC to deduct a percentage of their profits from their taxable income. This deduction, previously available for a shorter period, has now been extended to 20 consecutive years out of 25. This provides long-term certainty to financial institutions, positioning India competitively against established global financial hubs like Singapore, Dubai, and London by ensuring predictable tax benefits over an extended horizon.
- **Extended timelines for revised returns:** Revised tax returns are filed to correct errors or omissions in previously submitted original returns. The government has extended the timeline for filing these revised returns, giving taxpayers more time to rectify genuine errors without facing penalties. This reduces stress for businesses and individuals, encourages accurate compliance by providing a buffer for corrections, and offers greater certainty in tax compliance by minimizing the risk of punitive actions for honest mistakes.

## Trust-Based Administration: From Policing to Partnership

- **Deferred duty payment for trusted entities:** This policy allows certain "trusted entities," typically those with a consistent track record of compliance and a strong financial standing (e.g., Authorized Economic Operators), to pay import duties at a later date instead of upfront. This shift from an immediate payment requirement to a trust-based deferral significantly improves cash flow for businesses, freeing up capital for operations and investment. It demonstrates a move towards a partnership approach where compliance history is rewarded with administrative flexibility.
- **Automatic goods registration and clearance:** For highly compliant businesses, goods can now undergo automatic registration through system-driven processes, leading to clearance without physical inspection. This reduces manual intervention, which in turn minimizes potential delays and transaction costs. It reflects a significant degree of trust placed in compliant businesses, allowing for faster movement of goods across borders and enhancing efficiency in global supply chains.
- **Lower deduction certificate scheme:** This scheme allows taxpayers to apply for a certificate from the tax authorities authorizing the deduction of Tax Deducted at Source (TDS) at a lower rate, or even zero rate, if their actual tax liability is expected to be lower than the standard TDS rate. This prevents the unnecessary blocking of working capital for businesses by allowing them to receive funds with a more accurate tax deduction, based on a trust-based assessment of their financial situation and estimated tax liability.
- **Decriminalisation of procedural lapses:** Historically, certain procedural errors in tax compliance could lead to criminal prosecution. This policy now reclassifies many such procedural lapses (e.g., minor technical breaches, delays in filing non-substantive reports) from criminal offenses to civil penalties. This fundamental shift reduces the fear of criminal prosecution for genuine mistakes, encouraging voluntary compliance and fostering a less adversarial relationship between taxpayers and the administration.
- **Conversion of penalties into fees:** This initiative re-characterizes certain punitive penalties into administrative fees for minor compliance breaches. Penalties are inherently punitive, designed to punish non-compliance, while fees are administrative charges for services or regulatory functions. By converting certain penalties to fees, the government aims to reduce the financial burden on businesses for minor infractions, reflecting a philosophical shift from punishment to facilitation and a focus on encouraging compliance rather than solely punishing non-compliance.
- **Graded punishment commensurate with offence:** This approach ensures that the consequences for non-compliance are proportionate to the severity of the offense. Instead of a one-size-fits-all penalty, violations are subject to graded punishment, meaning minor errors attract minimal consequences, while serious fraud or intentional evasion faces strict and appropriate action. This fair and reasonable system builds confidence among taxpayers, as they know that the administration will differentiate between genuine mistakes and deliberate malfeasance.

"When trust leads, compliance follows. Certainty in rules creates confidence in action."

THEMATIC ANALYSIS

# Dispute Prevention & Litigation Management

1

## Prevention at Source

**Voluntary payments treated as non-punitive charges:** Voluntary payments are those initiated by a taxpayer to correct errors or omissions before they are detected by tax authorities. Treating these as non-punitive encourages proactive compliance, fostering a culture where taxpayers feel comfortable rectifying mistakes without fear of severe repercussions. This distinction transforms punitive penalties (designed to punish) into administrative charges (fixed fees for processing), significantly reducing the financial burden for minor compliance errors. This shift minimizes the fear of criminal prosecution or heavy penalties, promoting self-correction and reducing the likelihood of prolonged litigation and appeals.

**Advance ruling validity increased to 5 years:** Advance rulings are binding decisions issued by tax authorities on the tax treatment of proposed transactions, providing clarity and certainty. By increasing their validity period from often shorter terms to 5 years, businesses gain long-term certainty for their financial planning and investment decisions. This is particularly beneficial for complex cross-border transactions, mergers, and significant capital investments, as it prevents disputes before they even arise, streamlining operations and reducing compliance risks for a substantial period.

**Product-specific tariff entries for classification accuracy:** Tariff classification determines the customs duty rates applicable to imported and exported goods, a process often complex due to diverse products and changing global trade. Introducing product-specific entries provides clear and precise guidance on how goods should be categorized, eliminating ambiguity. This prevents disputes over classification, which historically have been a major source of litigation between taxpayers and customs authorities. The use of Harmonized System of Nomenclature (HSN) codes ensures global alignment and promotes accurate classification at the point of entry, thereby preventing future legal challenges and ensuring predictable duty liabilities.

2

## Penalty Rationalisation

**Conversion of penalties into fees for procedural defaults:** Procedural defaults include minor infractions like late filing of documents, documentation errors, or small mistakes in forms. This initiative re-characterizes many such punitive penalties (which are percentage-based and can be substantial) into fixed, administrative fees. This change significantly reduces the financial burden on businesses for minor compliance errors, promoting a shift from a system focused solely on punishment to one that facilitates compliance and encourages corrective action without undue financial strain.

**Integrated assessment and penalty proceedings:** Previously, tax assessment and penalty proceedings were often separate, leading to a protracted and uncertain process where taxpayers first faced assessment and then separate penalty notices. Integrated proceedings combine these stages into a single, cohesive process. This saves significant time and reduces uncertainty for taxpayers by allowing them to know their complete tax liability, including any penalties, at once. This streamlined approach minimizes multiple rounds of litigation and appeals, fostering a more efficient and less burdensome resolution process.

**Immunity eligibility with additional income-tax payment:** This policy offers protection from criminal prosecution for certain offenses, provided the taxpayer makes a voluntary disclosure of undeclared income or assets and pays the additional tax due along with interest. By allowing taxpayers to prevent criminal proceedings through an additional income-tax payment, the scheme encourages voluntary compliance and resolution. This is particularly beneficial for resolving past discrepancies without facing the severe consequences of prosecution, offering a pathway for taxpayers to regularize their affairs. This eligibility applies to offenses that are procedural or non-aggravated in nature, not involving serious fraud.

3

## Disclosure Schemes

**Six-month foreign asset disclosure scheme for small taxpayers:** This scheme provides a limited window, typically six months, for eligible small taxpayers to voluntarily declare previously undeclared foreign assets, such as overseas bank accounts, property, or investments. "Small taxpayers" are generally defined by specific income or asset thresholds set by the government. The benefits of such voluntary disclosure include reduced penalties and immunity from prosecution, encouraging regularization of foreign holdings without fear of harsher legal consequences. The process usually involves filing a specific declaration form and paying the applicable tax and a reduced penalty.

**Immunity from prosecution for non-disclosure of assets below ₹20 lakh with retrospective effect:** Non-disclosure often stems from oversight, lack of awareness, or genuine mistakes rather than deliberate evasion. This measure grants immunity from criminal prosecution for non-disclosure of assets if their value is below a specified threshold, here ₹20 lakh. The "retrospective effect" means this immunity applies to non-disclosures that occurred in past tax years, providing significant relief for genuine oversights. This policy acknowledges that minor non-compliance should not automatically lead to criminal charges, ensuring that taxpayers are not unduly penalized for small-value, unintentional errors. The conditions for availing this benefit typically include voluntary compliance and, in some cases, payment of due taxes without penalty.

4

## Efficient Resolution

**Block assessment restricted to one year for third parties in search cases:** Block assessment is a procedure where undisclosed income of a taxpayer is assessed over multiple years, usually initiated following a search operation (raids or investigations). When such a search unearths information about "third parties" (associates, related persons who are not the primary target of the search), their block assessment is now restricted to only one year instead of multiple years. This change is fairer as it reduces the burden and potential harassment on peripheral or innocent third parties who may be inadvertently caught in a search operation, ensuring that the focus remains on the primary assessee without unduly penalizing others.

**Extended timelines for error correction without penal consequences:** Taxpayers can make errors like calculation mistakes, omissions, or incorrect claims in their returns. This policy extends the time period available for taxpayers to correct such errors, often through filing revised returns or rectification applications, without attracting penalties. This provides a crucial buffer, reducing stress and allowing taxpayers adequate time to review and rectify genuine mistakes. The absence of penal consequences for errors corrected within these extended timelines encourages accuracy over speed and fosters a more cooperative environment between taxpayers and the administration, minimizing the need for subsequent dispute resolution.





THEMATIC ANALYSIS

## Ease of Compliance & Digital Governance

### Technology-Driven Governance

**End-to-end digital processing with automated alerts, electronic records, and cargo tracking systems:** End-to-end digital processing signifies that processes, from initial application to final approval, are handled entirely digitally, eliminating manual intervention. Automated alerts provide real-time notifications for deadlines, status updates, and compliance requirements. Electronic records replace traditional paper documents and physical filing systems, ensuring secure, accessible, and tamper-proof data. Cargo tracking systems offer real-time visibility of shipments from port to destination, often leveraging GPS, RFID, and blockchain technology. This comprehensive digital approach significantly enhances transparency, speeds up operations, and drastically reduces human errors, ensuring a more efficient and reliable governance framework.

**Unified systems provide single touchpoint interaction with PGAs:** Participating Government Agencies (PGAs) include critical entities like Customs, FSSAI (Food Safety and Standards Authority of India), Drug Controller, Plant Quarantine, and Animal Quarantine. Unified systems, such as integrated digital platforms like ICEGATE and the Single Window Interface for Trade, consolidate interactions with these agencies. This means businesses and individuals can use one portal for all necessary clearances and interactions, rather than navigating multiple, often disparate, agency websites or physical offices. This single touchpoint significantly reduces time, cost, and bureaucratic hassle, fostering improved coordination and efficiency among various government departments.

**Online and app-based facilities for international passengers:** International passengers now benefit from specific online and app-based facilities like customs declaration applications, e-visa systems, and digital immigration forms. These platforms allow passengers to complete various formalities before their arrival, streamlining the entry process. Mobile app features often include QR code generation for quick scanning, duty calculators for transparency, and direct declaration submission. This digital shift drastically reduces airport queues and processing times, leading to a much improved, transparent, and hassle-free passenger experience.

### Compliance Simplification

**Lower deduction certificate scheme with rule-based automation:** Lower deduction certificates allow eligible taxpayers to have income tax deducted at a rate lower than the standard prescribed rate, improving their cash flow. Rule-based automation means that the system automatically evaluates eligibility based on predefined criteria, replacing a previously manual and often lengthy application process. This automation reduces processing time from weeks to just days, primarily benefiting pensioners, fixed-income earners, and low-income taxpayers by providing them with improved cash flow and quicker access to their earnings.

**Single window filing for TDS forms:** TDS (Tax Deducted at Source) forms, such as Form 15G, 15H, and 26AS, are crucial for tax compliance. Single window filing means that all TDS-related submissions can now be made through one consolidated portal, moving away from a fragmented system where different forms had to be submitted to various entities or platforms. This consolidation significantly simplifies compliance, reduces duplicate submissions, and minimizes errors, benefiting both deductors (those deducting tax) and deductees (those from whom tax is deducted) by streamlining the entire process.

**Extended timelines for revised returns:** Revised returns are corrections made to originally filed tax returns, necessary when taxpayers identify calculation errors, missed income, or incorrect deductions. Extending the deadline for filing these revised returns beyond the previous, shorter window significantly reduces stress and the risk of penalties for taxpayers. This change encourages proper review and ensures greater accuracy in tax filings, fostering voluntary compliance over rushed submissions and allowing taxpayers adequate time to rectify genuine mistakes without undue pressure.

**Simplified TDS provisions for manpower supply benefiting labour-intensive businesses:** Manpower supply refers to services provided by contract labor or staffing agencies. Previously, TDS provisions in this sector were complex, involving multiple rates, frequent changes, and classification issues. This simplification introduces standardized rates and clearer guidelines, substantially reducing the compliance burden for businesses. Labour-intensive sectors like construction, manufacturing, hospitality, and security services benefit most, as it cuts administrative costs, minimizes compliance errors, and positively impacts employment stability and overall business operations.

"Growth accelerates when friction disappears. Digital governance turns intent into impact."

## **DISCLAIMER**

This report is a compilation of expert comments and synthesis from publicly available news articles, research documents, policy papers and announcements. Neither Chase Avian Communications Private Limited (referred to as "Chase Advisors"), nor agency thereof, nor any of their employees, nor any of their contractors, subcontractors or their employees, makes any warranty, express or implied. Nor do they assume any legal liability or responsibility for the accuracy, completeness, or any third party's use or the results of such use of any information or process disclosed or represent that its use would not infringe privately owned rights. Reference herein to any specific organization, commercial product, process or service by trade name, trademark, manufacturer or otherwise does not necessarily constitute or imply its endorsement, recommendation or favoring by Chase Advisors or any agency thereof or its contractors or subcontractors. The views and opinions expressed herein do not necessarily state or reflect those of Chase Advisors or any agency thereof

## **ABOUT CHASE ADVISORS**

Chase Advisors is a research-based consulting firm specializing in public policy advocacy and government affairs. At Chase, we believe in the power of evidence-based advocacy and communication to move people to positive action. We endeavour to aid clients in enhancing businesses, generating impact, and catalyzing transformation by collaborating with governments and ecosystem stakeholders, fostering enduring outcomes for organizations and society.

# CHASE ADVISORS

A We. Communications Company

[www.chase-advisors.com](http://www.chase-advisors.com)